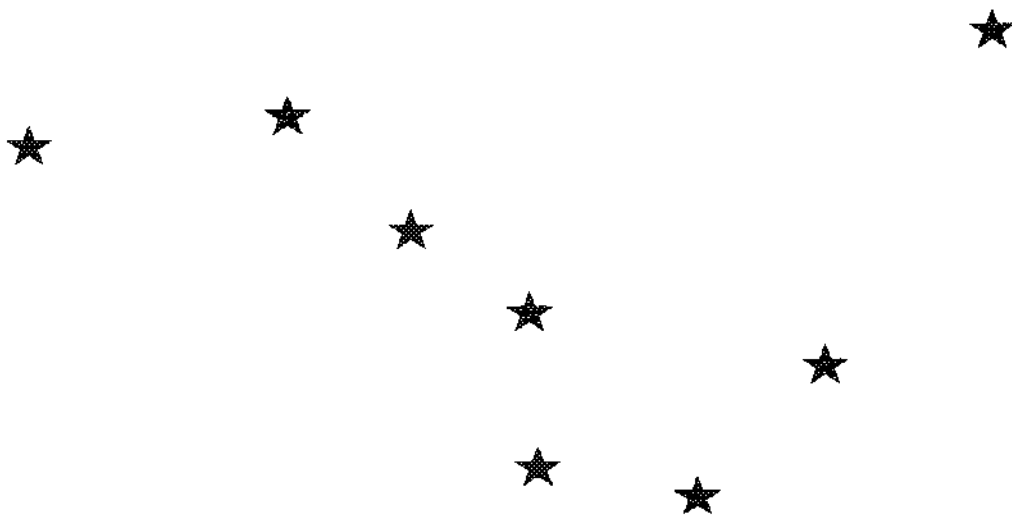




INTRODUCTORY SECTION



Prepared by: Department of Administration
Division of Retirement and Benefits

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT FUND
TEACHERS' RETIREMENT FUND
Fiscal Year 1988

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DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

P.O. BOX C
JUNEAU, ALASKA 99811-0200
PHONE: (907) 465-2200

December 15, 1988

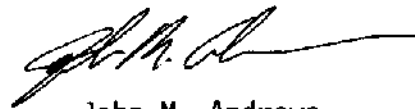
The Honorable Steve Cowper
Governor of Alaska
P.O. Box A
Juneau, AK 99811

Dear Governor Cowper:

It is my pleasure to submit to you the Annual Report of the Alaska Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS).

This report shows the financial condition of both the PERS and TRS funds as of June 30, 1988. It has been prepared on the basis of standards set forth by the National Council on Governmental Accounting and is submitted in accordance with the requirements of Alaska Statutes 39.35.020(5) (PERS) and 14.25.030(4) (TRS).

Sincerely,



John M. Andrews
Commissioner

JMA/mm
6/6K5/1120-01/1
Enclosure

DEPARTMENT OF ADMINISTRATION
DIVISION OF RETIREMENT & BENEFITS

PLEASE REPLY TO:

☐ P.O. BOX CR
 JUNEAU, ALASKA 99811-0203
 PHONE: (907)465-4460

☐ 701 EAST TUDOR ROAD, SUITE 240
 ANCHORAGE, ALASKA 99503-7445
 PHONE: (907) 563-5885

Public Employees Retirement System
 Teachers' Retirement System
 Judicial Retirement System
 Elected Public Officers Retirement System
 National Guard Retirement System
 Territorial Retirement System
 Retirees' Voluntary Dental-Vision Audio Plan
 Supplemental Benefits System
 Group Health/Life Insurance Benefits
 Deferred Compensation Plan
 Public Employers Social Security Contributions

STEVE COWPER, GOVERNOR

December 15, 1988

Commissioner John M. Andrews
 Department of Administration
 P.O. Box C
 Juneau, AK 99811-0200

Dear Commissioner Andrews:

The Annual Financial Report of the Public Employees' (PERS) and Teachers' (TRS) Retirement Systems is hereby submitted. The information presented in this report shows the results of operations and the financial condition of the two retirement funds for the fiscal year ending June 30, 1988. The financial statements in this report are presented on the accrual basis of accounting in accordance with the Financial Accounting Standards Board, Standard No. 35.

The report contains the financial statements, the audit report from the professional accounting firm of Peat Marwick Main and Company, and excerpts from the most recent actuarial valuations prepared by the system's actuary, William M. Mercer-Meidinger-Hansen, Inc. Also included are the fiscal year investment comments from the Division of Treasury, Department of Revenue, which is charged with the investment of the retirement funds.

The June 30, 1988, net assets available for benefits were \$2,123,694,843 for the PERS, an increase of 5.6 percent over the previous year; and \$1,356,575,271 for the TRS, an increase of 4.1 percent over the previous year.

The graphs on pages 46 and 47 (PERS) and pages 86 and 87 (TRS) demonstrate the increases in total assets and benefits paid in recent years. Additional information for the fiscal years ending June 30, 1986, through June 30, 1988, is provided in the following table:

	FY 1988		FY 1987		FY 1986	
	<u>PERS</u>	<u>TRS</u>	<u>PERS</u>	<u>TRS</u>	<u>PERS</u>	<u>TRS</u>
Number of participating employers (reporting entities)	123	63	117	62	112	61
Number of participating members	26,676	8,218	26,802	7,810	27,643	8,824

	FY 1988		FY 1987		FY 1986	
	<u>PERS</u>	<u>TRS</u>	<u>PERS</u>	<u>TRS</u>	<u>PERS</u>	<u>TRS</u>
Number of retired members	6,702	2,972	5,668	2,401	4,657	2,098
	FY 1988		FY 1987		FY 1986	
	<u>PERS</u>	<u>TRS</u>	<u>PERS</u>	<u>TRS</u>	<u>PERS</u>	<u>TRS</u>
Average Annual Retirement Benefit	\$11,328	\$21,240	\$11,073	\$19,716	\$10,068	\$18,504
Average Annual Medical Benefit	\$1,683	\$1,683	\$1,980	\$1,980	\$2,100	\$2,100

The PERS and TRS fall 1987 board meetings were held in Anchorage and the spring 1988 meetings were held in Juneau. The boards approved the annual actuarial valuations and employer contribution rates at the spring meetings. The PERS Board also held special meetings to hear member appeals in Anchorage on January 13 and June 23-24, 1988.

The following legislation affecting the retirement systems passed during the 1988 legislative session:

- ° Chapter 76, SLA 1988 (SB 42), amended chapter 26, SLA 1986, to allow eligible TRS members to use territorial and Alaska Bureau of Indian Affairs service credit to qualify for retirement under the Retirement Incentive Program (RIP). The application and retirement deadlines were also extended for eligible members.
- ° Chapter 89, SLA 1988 (HB 353), added language to the PERS and TRS to allow former members to reinstate refunded service credit if their retirement contributions were refunded because of a levy under AS 09.38.065 or a federal tax levy. Because of these amendments, former members are no longer required to be reemployed under the retirement systems to reinstate levied contributions.
- ° Chapter 106, SLA 1988 (SB 253), made technical improvements to the PERS and TRS. It also removed the deadlines from claiming past temporary service and past peace officer/fireman service with a municipality. New provisions were added to: (1) allow PERS members to claim past "special peace officer" service credit; (2) provide for alternate PERS benefits for eligible Elected Public Officers Retirement System (EPORS) members and their survivors; and (3) allow TRS credit for Alaska Native language or culture service.

December 15, 1988

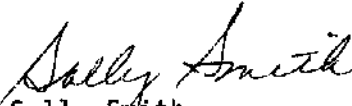
- ° Chapter 141, SLA 1988 (HB 547), (the "Act") is a comprehensive revision of Department of Revenue investment statutes. The department invests all State funds, including the Public Employees', Teachers', Military, and Judicial Retirement Trust Funds.

The Act focuses on trust funds, including retirement and endowment funds. One of the Act's major accomplishments is to place fiduciary duties and standards relating to trust funds into Alaska law and clarify and elevate existing ones.

The other major achievement is the broadening of permissible investments. The Act places investment authority under the elevated standards of care contained in the bill, eliminating narrow legal lists of investments previously in statutes. This increases investment opportunities and permits greater diversification which reduces risk and increases earnings on State funds.

A copy of this report will be mailed to all PERS and TRS employers. The cooperation of those employers is essential to the successful operation of the system.

Sincerely,


Sally Smith
Director

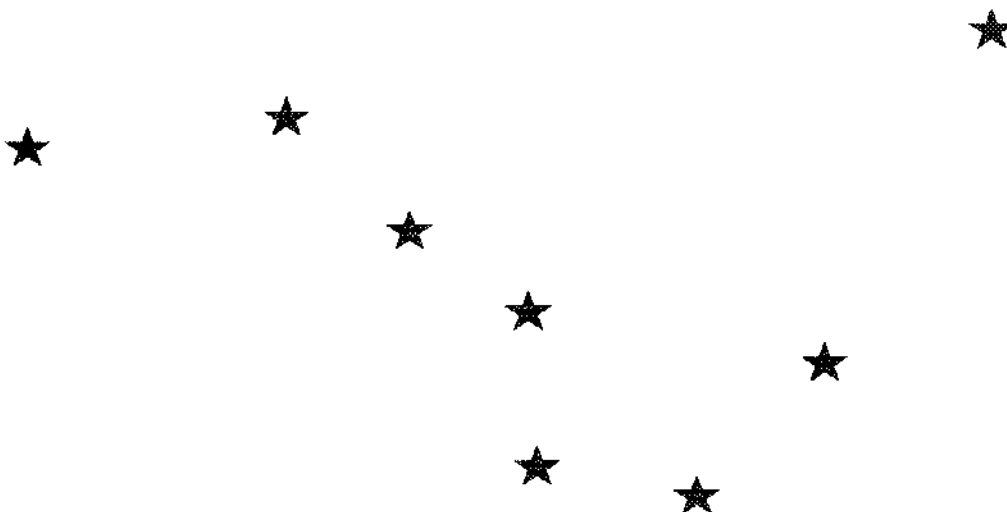
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Enclosure

STATE OF ALASKA
RETIREMENT FUNDS
Combined Statement of Assets
June 30, 1988
(In Thousands)

Assets:	<u>Total</u>	<u>Public Employees' Retirement Fund</u>	<u>Teachers' Retirement Fund</u>
Investments, at fair value:			
Short-term investments	\$ 44,264	\$ 23,432	\$ 20,832
United States Government securities	1,398,275	874,896	523,379
Corporate bonds, notes and debentures	370,318	225,931	144,387
Common stocks	916,778	556,880	359,898
Foreign stocks	229,667	138,421	91,246
Real estate equity funds	226,389	140,802	85,587
Total investments	<u>\$3,185,691</u>	<u>\$1,960,362</u>	<u>\$1,225,329</u>
Loans and mortgages, at cost	<u>\$ 213,074</u>	<u>\$ 114,934</u>	<u>\$ 98,140</u>
Receivables:			
Contributions	\$ 8,208	\$ 3,406	\$ 4,802
Retirement Incentive Program	29,361	19,602	9,759
Accrued interest and dividends	41,898	26,402	15,496
Total receivables	<u>\$ 79,467</u>	<u>\$ 49,410</u>	<u>\$ 30,057</u>
Cash in interest-bearing accounts	<u>\$ 6,351</u>	<u>\$ 1,710</u>	<u>\$ 4,641</u>
Total assets	<u>\$3,484,583</u>	<u>\$2,126,416</u>	<u>\$1,358,167</u>
Liability - accrued expenses	<u>4,313</u>	<u>2,721</u>	<u>1,592</u>
Net assets available for benefits	<u>\$3,480,270</u>	<u>\$2,123,695</u>	<u>\$1,356,575</u>



PUBLIC EMPLOYEE'S RETIREMENT SYSTEM



STATE OF ALASKA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD MEMBERS

NAME	TERM EXPIRES
C.R. "Steve" Hafling, Chair	July 20, 1990
James P. Wellington, Vice-Chair	March 7, 1990
Michael Andrews	June 20, 1994
Marlene A. Johnson	June 20, 1992
Mary A. Notar	March 7, 1990

KPMG Peat Marwick

Certified Public Accountants

Peat Marwick Main & Co.
Alaska Mutual Bank Building
601 West Fifth Avenue, Suite 700
Anchorage, AK 99501

Independent Auditors' Report

Division of Retirement and Benefits and
Members of the Alaska Public Employees' Retirement Board
State of Alaska Public Employees' Retirement System:

We have audited the accompanying statements of net assets available for benefits of the State of Alaska Public Employees' Retirement System as of June 30, 1988 and 1987, and the related statements of changes in net assets available for benefits for the years then ended and the summary schedule of investments as of June 30, 1988. These financial statements and schedule are the responsibility of the State of Alaska, Department of Administration, Division of Retirement and Benefits. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and schedule referred to above present fairly the net assets available for benefits and changes therein as of and for the years ended June 30, 1988 and 1987, in conformity with generally accepted accounting principles.

The analysis of funding progress, and revenues by source and expenses by type supplementary information on Schedules 2 and 3, respectively, are not a required part of the basic financial statements of the State of Alaska, Public Employees' Retirement System but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Peat Marwick Main & Co.

September 12, 1988

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Statements of Net Assets Available for Benefits

June 30, 1988 and 1987

(In thousands)

	<u>1988</u>	<u>1987</u>
Assets:		
Investments, at fair value:		
Short-term investments	\$ 23,432	5,700
United States Government securities	874,896	735,633
Corporate bonds, notes and debentures	225,931	179,176
Common stocks	556,880	604,931
Foreign stocks	138,421	203,400
Real estate equity funds	140,802	117,480
Total investments	<u>1,960,362</u>	<u>1,846,320</u>
Loans and mortgages, at cost, net of allowance for loan losses of \$5,515 in 1988 and \$4,221 in 1987	<u>114,934</u>	<u>134,126</u>
Receivables:		
Contributions	3,406	4,726
Retirement incentive program (note 5)	19,602	-
Accrued interest and dividends	26,402	21,615
Total receivables	<u>49,410</u>	<u>26,341</u>
Cash in interest-bearing accounts	1,710	5,468
Total assets	<u>2,126,416</u>	<u>2,012,255</u>
Liability - accrued expenses	<u>2,721</u>	<u>2,059</u>
Net assets available for benefits	<u>\$ 2,123,695</u>	<u>2,010,196</u>

See accompanying notes to financial statements.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Statements of Changes in Net Assets Available for Benefits

Years ended June 30, 1988 and 1987

(In thousands)

	<u>1988</u>	<u>1987</u>
Additions:		
Investment income:		
Net depreciation in fair value of investments (note 7)	\$ (112,755)	(27,799)
Interest	113,606	108,556
Dividends	23,381	13,571
Net realized gains on sale	<u>18,775</u>	<u>107,886</u>
Total investment income before provision for losses on loans and mortgages	43,007	202,214
Provision for losses on loans and mortgages	<u>1,294</u>	<u>4,221</u>
Net investment income	<u>41,713</u>	<u>197,993</u>
Contributions:		
State of Alaska and other employers (note 4)	75,072	96,548
Employees (note 4)	65,331	50,758
State of Alaska and other employers - retirement incentive program (note 5)	33,695	7,171
Employees - retirement incentive program (note 5)	<u>1,401</u>	<u>1,121</u>
Total contributions	<u>175,499</u>	<u>155,598</u>
Total additions	<u>217,212</u>	<u>353,591</u>
Deductions:		
Benefits paid:		
Retirement	73,964	57,473
Medical	<u>11,376</u>	<u>10,256</u>
Total benefits paid	<u>85,340</u>	<u>67,729</u>
Refunds to terminated employees	11,409	10,524
Administrative expenses	<u>6,964</u>	<u>4,985</u>
Total deductions	<u>103,713</u>	<u>83,238</u>
Net increase	113,499	270,353
Net assets available for benefits:		
Beginning of year	<u>2,010,196</u>	<u>1,739,843</u>
End of year	\$ <u>2,123,695</u>	<u>2,010,196</u>

See accompanying notes to financial statements.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 1988 and 1987

(1) Description of State of Alaska Public Employees' Retirement System (Plan)

The following brief description of the Plan is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

General

The Plan is the administrator of an agent, multiple-employer public employee retirement system established and administered by the State of Alaska (State) to provide pension benefits for eligible State employees and employees of its local governments. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a part of the State's financial reporting entity and is included in the State's financial reports as a pension trust fund. At June 30, 1988, the number of participating local government employers was:

Municipalities	56
Schools and universities	48
Other	<u>19</u>
Total employers	<u>123</u>

Inclusion in the Plan is a condition of employment for eligible State employees except, as otherwise provided, for elected officers. Any local government in the State may elect to have its permanent general, police and fire department employees covered by the Plan. At June 30, 1987, Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	7,572
Current employees:	
General	24,443
Police and fire	<u>2,319</u>
Total	<u>34,334</u>
Current employees:	
Vested:	
General	11,664
Police and fire	1,433
Nonvested:	
General	12,779
Police and fire	<u>886</u>
Total	<u>26,762</u>

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

Pension Benefits

Employees hired prior to July 1, 1986 with five or more years of credited service are entitled to annual pension benefits beginning at normal retirement age (fifty-five) or early retirement at age fifty. For employees hired after June 30, 1986, the normal and early retirement ages are sixty and fifty-five, respectively. The normal annual pension benefit is equal to 2% of the member's highest three-year average monthly compensation for the first ten years of service, 2-1/4% for the second ten years of service and 2-1/2% for the third ten years of service. All service earned prior to July 1, 1986 will be calculated using the 2% multiplier. Employees with thirty or more years of credited service (twenty years for peace officers and firemen) may retire at any age and receive a normal benefit. Employees retiring prior to January 1, 1987 may elect to receive their pension benefits in the form of a joint and survivor annuity. Beginning January 1, 1987, new retirees must receive their benefits in the form of a joint and survivor annuity unless the member's spouse agrees to another form of benefit. Minimum benefits for employees eligible for retirement are \$25 per month for each year of credited service. Major medical benefits are provided without cost to all members first hired before July 1, 1986. Members first hired after June 30, 1986 may elect major medical benefits.

Death and Disability Benefits

If an active employee dies from occupational causes, the employee's spouse or dependent children receive a monthly pension from the Plan. The amount of the pension changes on the date the employee's normal retirement would have occurred if the employee had lived. The new benefit is based on the employee's average base salary at the time of his/her death and the credited service that would have occurred had the employee lived and continued to work until normal retirement date. Nonoccupational death benefits are paid based on years of service and would consist of either a lump-sum benefit or a joint and survivor option. Active employees who become permanently disabled due to an occupational injury receive disability payments until normal retirement age. At normal retirement age the disabled participants begin receiving normal retirement benefits computed as though they had been employed to normal retirement age with their annual compensation remaining the same as at the time they became disabled.

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

Effect of Plan Termination

Should the Plan terminate at some future time, its net assets generally will not be available on a pro rata basis to provide participants' benefits. Whether a particular participant's accumulated Plan benefits will be paid depends on the priority of those benefits at that time. Some benefits may be fully or partially provided for by the then existing assets while other benefits may not be provided for at all.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting.

Valuation of Investments

Investments, other than real estate equity funds and loans and mortgages, are carried at market value to reflect their asset values as determined by the last quoted market price at June 30, 1988 and 1987.

Real estate equity funds are stated at estimated market value as determined by the independent management of the investment accounts. These investments do not have a readily available market and generally represent long-term investments.

Loans and mortgages are serviced by the institution from which the loan is purchased. The policy of the Plan is to hold these investments until maturity and, accordingly, the investments are stated at cost, less an allowance for estimated loan losses. Loans and mortgages include approximately \$9,148,000 and \$5,443,000 for 1988 and 1987, respectively, of other real estate owned. Other real estate owned represents properties on which the Plan has foreclosed and is holding with the intent to resell.

The change in fair value of investments for foreign stocks included in the net depreciation in fair value of investments in the statement of changes in net assets available for benefits is based on the net cost of foreign stocks (original cost plus reinvested income gains and losses).

The investment activity of all common stocks was consolidated on October 1, 1987 with the common stocks of other State funds to form a common stock pool. The activity from October 1, 1987 and the June 30, 1988 balances of this common stock pool are accounted for on a unity-accounting basis.

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

The Commissioner of Revenue has the statutory authority to invest the moneys of the Plan. This authority is delegated to investment officers of the treasury division of the Department of Revenue. Alaska Statute provides for the investment in United States Treasury or agency securities; corporate debt securities; preferred and common stock, commercial paper; securities of foreign governments, agencies and corporations; foreign time deposits, gold bullion; futures contracts for the purpose of hedging; real estate investment trusts; deposits within Alaska savings and loans and mutual savings banks; deposits with state and national banks in Alaska, guaranteed loans; notes secured by mortgages; certificates of deposit and banker's acceptances.

The Plan's deposits and investments are categorized below pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 3 and GASB Technical Bulletin No. 87-1 to give an indication of the level of safekeeping risk assumed by the Plan at June 30, 1988.

Deposits

Category 1 - Insured or collateralized with securities held by the State or its custodian in the State's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or custodian in the State's name.

Category 3 - Uncollateralized.

Investments

Category 1 - Insured or registered for which the securities are held by the State or its custodian in the State's name.

Category 2 - Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the State's name.

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

Category 3 - Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent but not in the State's name.

	Category (in thousands)			Market value and carrying value
	<u>1</u>	<u>2</u>	<u>3</u>	
Deposits - cash	\$ 1,710	-	-	1,710
Investments:				
Repurchase agreements	23,432	-	-	23,432
United States Government securities	874,896	-	-	874,896
Corporate bonds	225,931	-	-	225,931
Common stocks	556,880	-	-	556,880
Foreign stocks	-	138,421	-	138,421
Real estate equity funds	140,802	-	-	140,802
	<u>\$ 1,823,651</u>	<u>138,421</u>	<u>-</u>	<u>1,962,072</u>

Treasury investment policy requires that securities underlying the repurchase agreements must have a minimum market value of 102% of the cost of the repurchase agreement. There were no violations of this policy during the dates covered by this statement.

Contributions Receivable

Contributions from employees and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is considered necessary.

Investment Income Receivable

Investment income receivable represents amounts earned but not yet received as of June 30. These amounts are considered fully collectible and, accordingly, no allowance for uncollectible receivables is considered necessary. Accrued interest on loans and mortgages is not recorded until received.

Reclassifications

Certain amounts previously reported have been reclassified to conform with the current year's presentation. The reclassifications have no effect on the previously reported net increase in net assets available for benefits.

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

(3) Funding Status and Progress

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among Plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan, discussed in note 4 below.

The pension benefit obligation is determined by an actuary from William M. Mercer-Meidinger Incorporated and is that amount that results from applying actuarial assumptions to adjust the accumulated benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of June 30, 1987 are as follows:

- a. Actuarial cost method - projected unit credit, unfunded accrued benefit liability amortized over twenty-five years, funding surplus amortized over five years.
- b. Mortality basis - 1984 Unisex Pension Mortality Table set back one and one-half years.
- c. Retirement age - retirement rates based on actual experience.
- d. Interest rate - 9% per annum, compounded annually, net of investment expenses.
- e. Health cost inflation - 9% per annum.
- f. Salary scale - increase of 6.5% for the first five years of employment and 5.5% per year thereafter.
- g. Cost of living allowance (domicile in Alaska) - 69% of those receiving benefits will be eligible to receive the cost of living allowance.

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

- h. Contribution refunds - 100% of those terminating after age thirty-five with five or more years of service will leave their contributions and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.
- i. Asset valuation - three-year average ratio between market and book values of assets.

Turnover and disability assumptions are based upon actual historical occurrence rates of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

At June 30, 1987, the assets in excess of pension benefit obligation were \$105.2 million, as follows (in millions):

Net assets available for benefits, at market, as more fully described in note 2	\$ <u>2,010.2</u>
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	820.8
Current employees:	
Accumulated employee contributions including allocated investment income	216.5
Employer-financed vested	704.3
Employer-financed nonvested	<u>163.4</u>
Total pension benefit obligation	<u>1,905.0</u>
Assets in excess of pension benefit obligation	\$ <u>105.2</u>

The pension benefit obligation increased \$192.3 million during the year ended June 30, 1987 as a result of changes in benefit provisions.

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

(4) Contributions Required and Contributions Made

Employees' Contributions

Prior to January 1, 1987, employees contributed 4-1/4% of their compensation, except for peace officers and firemen, who contribute 5% of their compensation to the Plan. Beginning January 1, 1987, contribution rates increased to 7.5% for peace officers and firemen and 6.75% for other employees. Present employees' accumulated contributions at June 30, 1988 were \$331,040,000. Employees' contributions earn interest at the rate of 4-1/2% per annum, compounded semiannually. Contributions are collected by employers and remitted to the Plan.

Employer Contribution

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The Plan also uses the level percentage of payroll method to amortize the unfunded liability over a twenty-five year period. Funding surpluses are amortized over five years.

Contributions made in accordance with actuarially determined contribution requirements determined through actuarial valuations consist of the following (in thousands):

	<u>1988</u>	<u>1987</u>
State and other:		
Employers	\$ 75,072	96,548
Employee	<u>65,331</u>	<u>50,758</u>
	\$ <u>140,403</u>	<u>147,306</u>
Normal cost	146,859	141,426
Amortization of unfunded actuarial accrued liability (surplus)	<u>(6,456)</u>	<u>5,880</u>
	\$ <u>140,403</u>	<u>147,306</u>

The actuarial valuation was performed
June 30, 1986 for 1988 and 1987.

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed in note 3 above.

(5) Retirement Incentive Program

Legislation passed in May 1986 established a retirement incentive program designed to encourage eligible employees to voluntarily retire in order to reduce personnel service costs. The program was available to eligible State employees until June 30, 1987, eligible University of Alaska employees from October 1, 1986 to September 30, 1987, and all other members from January 1, 1987 to December 31, 1987.

The retirement incentive program receivable represents the reimbursement due from agencies and employers participating in the program and is due in minimum equal annual installments so that the entire balance is paid within three years after the end of the fiscal year in which members retired. Interest on unpaid balances will begin accruing at 7%, compounded semiannually, beginning August 31, 1988. The amount of reimbursement is the actuarial equivalent of the difference between the benefits the member receives after the addition of the retirement incentive under the program and the amount the member would have received without the incentive, less any amount the participant was indebted as part of retiring under the program. Participating peace officers or firemen were indebted 15% and all other members 12.75% of their annual compensation for the calendar year in which the member terminated employment to participate in the program. An outstanding indebtedness at the time a participant was appointed to retirement resulted in an actuarial adjustment to his/her benefit.

The effect of the retirement incentive program on the pension benefit obligation will be fully accounted for in the June 30, 1988 actuarial valuation. Only the effect of program participants retiring on or before June 30, 1987 are included in the June 30, 1987 actuarial valuation.

(6) Ten-year Historical Trend Information

Ten-year historical trend information designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented on Schedules 2 and 3.

(Continued)

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

(7) Investments

During 1988 and 1987, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows (in thousands):

	<u>1988</u>	<u>1987</u>
United States Government securities	\$ (9,588)	(34,394)
Corporate bonds, notes and debentures	(5,268)	(4,984)
Common stocks	(63,422)	(254)
Foreign stocks	(35,028)	1,661
Real estate equity funds	<u>551</u>	<u>10,172</u>
	\$ <u>(112,755)</u>	<u>(27,799)</u>

(8) Contingent Liabilities

The Plan was a party to an action contesting application of the early retirement factors adopted by the Plan in the calculation of the pension benefit obligation. The Alaska Supreme Court ruled in 1987 that the Plan must use the most favorable early retirement factor available when a member begins receiving a monthly benefit. While the suit only specifically addressed early retirement factors, other actuarial retirement factors were also affected. As a result of the suit, the Plan's actuary estimates that the actuarial present value of the pension benefit obligation will increase by approximately \$50,000,000, which will result in an increase of approximately 1% in the average annual employer contribution rate. A benefit recalculation project for affected retirees is currently in progress, and it is anticipated that the project will be completed in early fiscal year 1989. Included in retirement benefits in the statement of changes in net assets available for the year ended June 30, 1988 is \$904,000 as a result of recalculations completed through the date of the report. The ultimate effect of the suit on the amount payable to current retirees as a result of not using the most favorable actuarial retirement factors has not been fully determined.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Summary Schedule of Investments

June 30, 1988

(In thousands)

	<u>Cost</u>	<u>Market</u>
Short-term investments	\$ 23,432	23,432
United States Government securities	836,644	874,896
Corporate bonds, notes and debentures	228,916	225,931
Common stocks	537,368	556,880
Foreign stocks	77,847	138,421
Real estate equity funds	131,681	140,802
Loans and mortgages, at cost, net of allowance for loan losses of \$5,515	<u>114,934</u>	<u>114,934</u>
	<u>\$ 1,950,822</u>	<u>2,075,296</u>

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information
Analysis of Funding Progress

(Unaudited)

(In thousands)

Year ended June 30	Net assets available	Pension benefit obligation	Percentage funded	Unfunded pension benefits obligation	Annual covered payroll	Unfunded pension benefit obligation as a percentage of covered payroll
1985	\$ 1,295,536	\$ 1,446,672	89.6%	\$ 151,136	\$ 830,579	18.2%
1986	1,739,843	1,556,610	111.8	(183,233)	890,092	(20.6)
1987	<u>2,010,196</u>	<u>1,905,005</u>	<u>105.5</u>	<u>(105,191)</u>	<u>891,302</u>	<u>(11.8)</u>

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

See accompanying notes to required supplementary information.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information
Revenues by Source and Expenses by Type

(Unaudited)

(In thousands)

Year ended June 30	Revenues by source				Total
	Employee contributions	Employer contributions	Investment income	Unrealized appreciation (depreciation) in market value	
1978	\$ 16,176	38,736	16,757	-	71,669
1979	17,631	47,614	25,389	1,121	91,755
1980	20,898	56,236	37,696	(4,990)	109,840
1981	24,321	71,833	50,633	(23,940)	122,847
1982	28,918	88,332	51,757	(16,725)	152,282
1983	32,595	99,727	86,002	53,099	271,423
1984	36,765	114,245	101,371	(74,541)	177,840
1985	39,577	123,466	112,261	117,733	393,037
1986	42,626	127,727	182,140	159,873	512,366
1987	<u>51,879</u>	<u>103,719</u>	<u>225,792</u>	<u>(27,799)</u>	<u>353,591</u>

	Expenses by type				Total
	Retirement benefits	Medical benefits	Refunds to terminated employees	Administrative expenses	
1978	\$ 11,006	-	4,346	610	15,962
1979	13,249	1,698	4,979	808	20,734
1980	16,051	1,725	5,759	856	24,391
1981	19,710	3,094	7,802	1,292	31,898
1982	24,062	3,375	7,205	1,611	36,253
1983	28,401	4,541	7,683	2,342	42,967
1984	33,060	6,939	8,923	1,776	50,698
1985	39,487	9,350	9,553	3,813	62,203
1986	45,916	9,411	9,165	3,567	68,059
1987	<u>57,473</u>	<u>10,256</u>	<u>10,524</u>	<u>4,985</u>	<u>83,238</u>

Contributions were made in accordance with actuarially determined contribution requirements.

See accompanying notes to required supplementary information.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Notes to Required Supplementary Information

Years ended June 30, 1987,
1986, 1985, 1984, 1983, 1982, 1981, 1980, 1979 and 1978

(Unaudited)

All significant accounting policies, benefit provisions and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

The Plan was on the cash basis of accounting for the year ended June 30, 1978. Effective July 1, 1978, the Plan adopted the accrual basis of accounting.

The Plan's actuarial funding method for the years ended June 30, 1978 through June 30, 1984 was attained age normal. Effective July 1, 1984, the Plan adopted the projected unit credit actuarial funding method.

Effective July 1, 1980, the Plan adopted new actuarial assumptions. The assumed rate of interest was increased from 6% to 8% per year. The salary scale assumption was changed from 6% per year until age thirty-nine and 5% per year thereafter to 8% for the first five years of employment and 7% thereafter. Health care cost inflation was set at 8%. Turnover and disability assumptions were revised based upon actual experience in 1980 through 1981.

Effective July 1, 1986, the Plan adopted new actuarial assumptions. Actuarial funding surpluses are amortized over five years rather than twenty-five years. The assumed rate of interest was increased from 8% to 9% per year. The salary scale assumption was lowered to 6.5% per year for the first five years of employment and 5.5% per year thereafter, down from 8% and 7%, respectively. Health care cost inflation was increased to 9% rather than 8%. Turnover and disability assumptions were revised based on actual experience in 1981 through 1985.

The Plan's actuarial valuations were performed as of January 1 for 1978, 1979 and 1980.

HIGHLIGHTS

This report has been prepared by William M. Mercer Meidinger Hansen, Incorporated to:

- (1) present the results of a valuation of the Alaska Public Employees' Retirement System as of June 30, 1987;
- (2) review experience under the plan for the year ended June 30, 1987;
- (3) determine the contribution rates for the State and for each political subdivision of the State;
- (4) provide reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The report is divided into two sections. Section 1 describes the basis of the valuation. It summarizes the plan provisions, provides information relating to the plan participants, and describes the funding methods and actuarial assumptions used in determining liabilities and costs.

Section 2 contains the results of the valuation. It includes the experience of the plan during the 1986-87 plan year, the current annual costs, and reporting and disclosure information.

The principle results are as follows:

	<u>1986</u>	<u>1987</u>
Funding Status as of June 30:		
(a) Valuation Assets*	\$1,587,599	\$1,898,253
(b) Present Value of Accrued Benefits*	1,556,610	1,905,005
(c) Accrued Benefit Funding Ratio, (a) / (b)	102.0%	99.6%
Contributions for Fiscal Year	<u>1989</u>	<u>1990</u>
(a) Consolidated Rate	10.20%**	9.23%
(b) Average Past Service Rate	(.82%)	.07%
(c) Average Total Contribution Rate	9.38%	9.30%

* In thousands.

** Adjusted for PRPA on July 1, 1986 and legislation.

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the plan sponsor and financial information provided by Peat, Marwick, Main & Company, to determine a sound value for the plan liabilities. We believe that this value and the method suggested for funding it are in full compliance with the Governmental Accounting Standards Board, the Internal Revenue Code, and all applicable regulations.

Respectfully submitted,

A handwritten signature in cursive script that reads "Robert F. Richardson".

Robert F. Richardson, ASA
Principal

RFR/GTS/caj/js

March 25, 1988

ANALYSIS OF THE VALUATION

The Highlights section shows slight decreases in both the accrued benefit funding ratio and the average total contribution rate when compared with the 1986 valuation. These small changes mask the dramatic changes to PERS in the last year. The effects of HB 252, continued large investment gains, the Retirement Incentive Program (RIP), and the estimated effect of the stock market crash on October 19, 1987, are all discussed below.

HB 252

For several years, there has been much discussion concerning an actuarially-funded, guaranteed post-retirement pension adjustment (PRPA) in PERS. In most of the years since 1972, there have been 4% ad hoc PRPA's granted. These ad hoc PRPA's could not be counted upon by the retirees nor were they funded in an actuarially-sound manner. During periods of high inflation, the ad hoc PRPA's were inadequate in preserving pension purchasing power. With passage of HB 252, retirement benefits for those over age 65, and those who are receiving disability benefits, will be increased by 75% of the increase in the Consumer Price Index, up to a maximum of 9% per year. Somewhat smaller PRPA's are provided for other retirees.

HB 252 also provided for modest increases in the pension benefit formula for other than the police/fire members. Instead of a flat 2% for all years of service, the "other" PERS members' benefit, for service after July 1, 1986, is now 2% for the first ten years of service, 2-1/4% for the next ten years, and 2-1/2% for years over 20.

The above improvements to PERS are being funded by an additional 2.5% employee contribution and by several cost-saving provisions. For employees hired after July 1, 1986, the normal retirement age was increased from age 55 to age 60. Retirees must pay for the full monthly premium for retiree medical insurance coverage prior to age 60; 50% of the premium from age 60 to age 65; and none of the premium if they are disabled or after age 65. The extra cost-of-living allowance (COLA) for residing in the State of Alaska was eliminated for retirees under age 65.

Retirement Incentive Program

The Retirement Incentive Program (RIP) was established on May 15, 1986 under a House Bill 382. The program was designed to encourage employees who were eligible for the program to retire voluntarily with earlier retirement eligibility or increased benefits. The cost of the program is more than offset by the savings of salary and other benefits provided to an active employee.

To be eligible for the program, an employee must be vested, included in an organizational unit approved for participation, and meet the minimum age and service requirements.

The RIP gives each eligible employee participating in the program three years of incentive credit. The incentive credit is applied in the following order:

- (1) to reduce the age or service requirement for normal or early retirement,
- (2) to reduce the actuarial adjustment for early retirement, and
- (3) to increase the amount of PERS service used to determine the employee's benefit amount.

The cost of the program is shared between the employer and the employee. The cost to the employee is 15% for "police/fire" and 12-3/4% for "all other" of the employee's annual salary in the year of termination. This may be paid in a lump sum or as an indebtedness which will result in an actuarial reduction in the benefit.

The full impact of the RIP will not be reflected in the actuarial valuation until June 30, 1988 when all those employees participating in the program have retired. However, the effect of the program can already be seen by the reduction in the number of active employees and the increase in the number of retired employees shown in Section 1.2.

Investment Performance

For the third straight year, the investment return on plan assets has been greater than the actuarial assumption. The rate of return was 14.68% based on valuation assets. This produced a large actuarial gain from investments which almost completely covered the increased liabilities caused by HB 252.

The bull market of the 1980's has played an important role in reaching full funding. On October 19, 1987, the market experienced an unprecedented drop. The full funding status of the plan presented in this valuation does not reflect that drop. Generally speaking, the stock market lost the gains it had made since the beginning of 1987. Not all of the system's assets were subject to this drop. On June 30, 1987, about 41% of the plan assets were in U.S. and foreign equities and 59% of the assets were composed of the book value of government and corporate bonds, cash and receivables, or other investments.

If the impact of the crash were fully reflected in the valuation assets (without the three-year smoothing technique), the funding status would have declined about 10% and the contribution rate would have increased about 2% of payroll. The three-year average smooths losses and helps stabilize the contribution rate which otherwise would tend to fluctuate excessively. Of course, fluctuation of asset values between valuation dates does not affect contribution rates in any manner.

Employee Data

Section 1.2 shows statistical data for PERS members. There is a net decrease of almost 900 active members in PERS. Undoubtedly, this decrease reflects the large number of retirements due to the Retirement Incentive Program. As this section shows, the number of retirees increased by almost 1,000 during the year, while the average age of all retirees decreased dramatically from 64.05 down to 60.39. Again, this shows the impact of the RIP on PERS membership. The impact of the RIP can be seen more dramatically in Section 1.4(a). The number of normal service retirements for police/fire members increased from 25 to 91 with a resulting decrease in average age at retirement from 52.11 down to 47.93. For the "Other" PERS members, the number of service retirements increased from 392 to 924 with a resulting decrease in the average age at retirement from 58.31 down to 57.08. The number of new disability and survivor retirements remained approximately the same.

Summary

The year ending June 30, 1987 saw more dramatic changes to PERS than perhaps any other year since its inception. Passage of House Bill 252 and the Retirement Incentive Program provided substantial benefit increases to members. In spite of these large benefit improvements during the year, the system remained virtually fully funded, thanks to continued investment performance in excess of our actuarial interest assumption. The funding status of the State of Alaska PERS should be a source of pride and financial security to all members.

Section 1.6
ACTUARIAL BASIS

Valuation of Liabilities

- A. Actuarial Method - Projected Unit Credit. The unfunded accrued benefit liability is amortized over 25 years. Actuarial funding surpluses are amortized over five years.
- B. Method For Accumulated Plan Benefit Values - The actuarial present value of accumulated plan benefits (the term used for Financial Accounting Standards Board purposes) and present value of vested accumulated benefits are a measure of plan benefits which have been earned to date. These are not only a valuation of retirement benefits, but also of deferred vested, death benefits, and other ancillary benefits. Earnings and service for benefit purposes which are expected to be earned after the valuation date are excluded from these values.

The actuarial assumptions used to determine these values are identical to those used for the funding purposes.

In estimating accumulated benefits, final average compensation is based on compensation data in the possession of the actuary.

C. Actuarial Assumptions -

- | | |
|--------------------------|--|
| 1. Interest | 9% per year, compounded annually, net of investment expenses. |
| 2. Salary Scale | 6.5% per year for the first five years of employment and 5.5% per year thereafter. |
| 3. Health Cost Inflation | 9% per year. |
| 4. Mortality | 1984 Unisex Pension Mortality Table set back 1-1/2 years. |
| 5. Turnover | Based upon the 1981-85 actual total turnover experience. (See Table 1). |
| 6. Disability | Incidence rates in accordance with Table 2. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security. Disabilities are assumed to be occupational 85% of the time for Police/Fire, 35% for "Others". |

- | | |
|-------------------------|---|
| 7. Retirement Age | Retirement rates based on actual experience in accordance with Table 3. |
| 8. Spouse's Age | Wives are assumed to be four years younger than husbands. |
| 9. Contribution Refunds | 100% of those terminating after age 35 with five or more years of service will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded. |
| 10. COLA | 69% of those receiving retirement benefits at an age which is eligible for COLA, will receive COLA. |
| 11. Expenses | No loading for expenses. |

Valuation of Assets

Based upon the three-year average ratio between market and book values of the System's assets, except that fixed income investments are carried at book value. Assets are accounted for on an accrued basis.

Valuation of Medical Benefits

Medical benefits for retirees are provided by the payment of premiums from the trust fund. A pre-65 cost and lower post-65 cost (due to Medicare) were assumed such that the total rate for all retirees equals the present premium rate. These medical premiums are then increased with the health inflation assumption. The actuarial cost method used for funding retirement benefits is also used to fund health benefits.

TABLE 1
ALASKA PERS
TOTAL TURNOVER ASSUMPTIONS

Select Rates of Turnover
During the First 10 Years
of Employment

Ultimate Rates of Turnover
After the First 10 Years
of Employment

Police and Fire:

<u>Year of Employment</u>	<u>----- 20-29</u>	<u>Age at Hire 30-39</u>	<u>----- 40+</u>
1	.39	.28	.22
2	.18	.19	.16
3	.12	.14	.13
4	.11	.13	.12
5	.07	.09	.11
6	.06	.09	.08
7	.05	.09	.08
8	.05	.06	.08
9	.04	.04	.04
10	.04	.03	.03

<u>Age</u>	<u>Rate</u>
20-29	.03
30-45	.02
46+	.01

Others:

<u>Year of Employment</u>	<u>----- 20-29</u>	<u>Age at Hire 30-39</u>	<u>----- 40+</u>
1	.34	.26	.20
2	.26	.21	.15
3	.21	.17	.13
4	.18	.14	.10
5	.16	.13	.09
6	.15	.13	.09
7	.12	.10	.09
8	.12	.09	.09
9	.12	.08	.08
10	.09	.07	.06

<u>Age</u>	<u>Rate</u>
20-45	.065
46+	.05

TABLE 2
ALASKA PERS -
DISABILITY RATES
ANNUAL RATES PER 1,000 EMPLOYEES

Age	Police & Fire Rate	"Other" Member Rate
20	.88	.28
21	.89	.28
22	.90	.29
23	.91	.29
24	.93	.30
25	.94	.30
26	.95	.30
27	.98	.31
28	1.00	.32
29	1.03	.33
30	1.05	.34
31	1.08	.34
32	1.10	.35
33	1.13	.36
34	1.16	.37
35	1.20	.38
36	1.24	.40
37	1.29	.41
38	1.34	.43
39	1.39	.44
40	1.44	.46
41	1.50	.48
42	1.59	.51
43	1.70	.54
44	1.85	.59
45	2.03	.65
46	2.20	.70
47	2.39	.76
48	2.59	.83
49	2.79	.89
50	3.00	.96
51	3.25	1.04
52	3.58	1.14
53	3.98	1.27
54	4.44	1.42
55	5.00	1.60
56	5.74	1.84
57	6.68	2.14
58	7.63	2.44
59	9.00	2.88
60	10.54	3.37
61	12.19	3.90
62	14.13	4.52
63	16.31	5.22
64	18.63	5.96

TABLE 3
ALASKA PERS
RETIREMENT RATES

<u>Age</u>	<u>Police & Fire Rate</u>	<u>"Other" Member Rate</u>
50	.17	.06
51	.11	.04
52	.11	.04
53	.12	.04
54	.12	.05
55	.30	.17
56	.21	.15
57	.21	.12
58	.12	.13
59	.12	.16
60	.21	.26
61	.21	.25
62	.25	.43
63	.33	.63
64 & Up	1.00	1.00

For ages less than 50, employees are assumed to retire two years after the earliest age they are eligible to retire.

Section 2.3(c)
DEVELOPMENT OF AVERAGE EMPLOYER CONTRIBUTION RATE - FY90
ALL MEMBERS
TOTAL SYSTEM (in thousands)

Consolidated Rate

(1) Total Normal Cost	\$ 143,184
(2) Total Salaries	891,301
(3) Normal Cost Rate for All Members, (1) / (2)	16.06%
(4) Average Member Contribution Rate	6.83%
(5) Consolidated Rate, (3) - (4)	9.23%

Past Service Rate

(1) Present Value of Accrued Benefits	\$1,905,005
(2) Valuation Assets	1,898,253
(3) Total Unfunded Liability, (1) - (2)	6,752
(4) 25-Year Amortization Factor	10.706612
(5) Past Service Payment, (3) / (4)	\$ 630
(6) Total Salaries	891,301
(7) Past Service Rate, (5) / (6)	.07%

Total Employer Contribution Rate 9.30%

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT FUND
Comparative Statement of Operations

	FISCAL YEAR ENDED	
	June 30, 1988	June 30, 1987
Beginning Equities and Reserves	\$2,010,195,776	\$1,739,843,490
Additions:		
<u>Employees' Contributions</u>		
Akutan, City of	8,726	7,396
Alaska, State of	37,104,571	26,153,495
Alaska Housing Finance Corporation	143,236	77,115
Alaska Municipal League	8,080	7,274
Alaska State Building Authority	266,264	233,082
Alaska Unorganized Borough Schools	-0-	(961)
Alaska, University of	4,150,220	3,491,986
Alaska Geophysical Inst., University of	249,042	176,076
Aleutian Region School District	22,891	24,473
Aleutians East Borough	24,763	-0-
Anchorage, Municipality of	6,105,048	5,256,890
Anchorage Parking Auth., Municipality of	26,105	20,148
Anchorage School District	2,573,427	2,304,781
Annette Island School District	33,632	28,019
Barrow, City of	(23,899)	81,628
Bartlett Memorial Hospital	353,832	1,409,213
Bering Straits School District	189,702	215,824
Bethel, City of	26,563	33,093
Bristol Bay Borough	69,681	61,098
Bristol Bay Borough School District	27,610	26,161
Bristol Bay Coastal Resource Service Area	10,941	-0-
Bristol Bay Housing Authority	17,655	6,180
Chatham School District	26,394	19,680
Chugach Region School District	11,036	6,902
Copper River Region Housing Authority	7,709	1,295
Copper River School District	49,739	38,756
Cordova, City of	106,457	70,237
Cordova Community Hospital	49,183	46,108
Cordova Public Schools	59,606	24,552
Craig, City of	39,330	30,798
Craig School District	4,588	3,600
Dillingham, City of	81,551	53,933
Dillingham City School District	51,865	48,708
Emmonak, City of	23,344	16,847
Fairbanks, City of	649,109	758,556
Fairbanks Municipal Utility System	475,776	376,334
Fairbanks North Star Borough	616,729	539,482
Fairbanks North Star Borough School District	916,917	791,836
Fort Yukon, City of	5,980	1,386
Galena, City of	53,350	48,184

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT FUND
Comparative Statement of Operations

	FISCAL YEAR ENDED	
	June 30, 1988	June 30, 1987
Additions - Continued:		
<u>Employees' Contributions</u>		
Galena City Schools	\$ 28,003	\$ 16,437
Haines Borough	6,649	6,647
Haines, City of	69,569	16,123
Homer, City of	158,151	191,305
Hoonah, City of	55,487	33,060
Hoonah City Schools	21,754	5,358
Hooper Bay, City of	4,816	-0-
Hydaburg City School District	6,210	3,349
Iditarod Area School District	78,831	82,161
Juneau, City and Borough of	1,067,642	(118,974)
Juneau Borough School District	281,052	195,756
Kake, City of	-0-	(21,524)
Kashunamiut School District	23,186	17,078
Kenai, City of	207,579	189,515
Kenai Peninsula Borough	517,832	486,109
Kenai Peninsula Borough School District	379,562	390,670
Ketchikan, City of	358,722	285,182
Ketchikan Gateway Borough	112,100	118,903
Ketchikan Gateway Borough School District	120,380	99,321
King Cove, City of	22,169	22,970
King Cove City School District	27,550	12,444
Klawock, City of	7,486	-0-
Kodiak, City of	270,727	211,960
Kodiak Island Borough	144,340	124,601
Kodiak Island Borough School District	195,263	154,944
Kotzebue, City of	144,557	122,261
Kuspuk School District	58,386	54,537
Lake and Peninsula School District	44,152	45,798
Lower Kuskokwim School District	629,784	540,771
Lower Yukon School District	194,128	175,443
Matanuska-Susitna Borough	307,687	322,139
Matanuska-Susitna Borough School District	564,952	470,895
Nenana, City of	16,221	16,348
Nenana City Schools	14,324	14,550
Nome, City of	97,613	118,314
Nome City Schools	72,267	68,271
Nome Joint Utilities	30,262	32,981
North Pacific Fisheries Management Council	37,035	28,457
North Pole, City of	135,899	55,095
North Slope Borough	2,443,974	1,990,216
North Slope Borough School District	417,941	427,116
Northwest Arctic Borough	22,286	33,917
Northwest Arctic School District	265,657	242,516

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT FUND
Comparative Statement of Operations

	FISCAL YEAR ENDED	
	June 30, 1988	June 30, 1987
Additions - Continued:		
<u>Employees' Contributions</u>		
Palmer, City of	\$ 129,308	\$ 103,780
Pelican, City of	6,022	6,741
Petersburg, City of	76,318	130,126
Petersburg General Hospital	56,365	41,767
Petersburg Public Schools	83,567	-0-
Pribilof Region School District	17,375	12,602
Railbelt School District	30,799	27,397
Ruby, City of	6,726	7,023
Saint Mary's, City of	10,594	9,090
Saint Mary's School District	32,377	22,696
Saint Paul, City of	59,241	49,134
Sand Point, City of	12,797	45,936
Sand Point City School District	9,698	5,430
Saxman, City of	3,124	1,349
Selawick, City of	1,230	709
Seward, City of	105,936	129,715
Seward General Hospital	58,340	54,894
Sitka, City and Borough of	227,748	210,054
Sitka Community Hospital	132,218	90,170
Sitka Borough School District	73,982	75,747
Skagway, City of	9,946	21,205
Skagway City Schools	6,109	-0-
Soldotna, City of	105,027	5,318
Southeast Islands School District	(983)	36,764
Southeast Regional Resource Center	43,519	13,889
Southwest Region Schools	85,212	78,965
Special Education Service Agency	9,263	4,382
Tanana, City of	21,559	13,591
Tanana City School District	11,460	10,560
Terminated Employers	-0-	23,423
Thorne Bay, City of	16,127	9,720
Unalakleet, City of	13,782	15,935
Unalaska, City of	172,970	136,062
Unalaska City Schools	10,568	7,985
Valdez, City of	362,671	249,429
Valdez City Schools	89,118	97,611
Wainwright, City of	11,988	11,781
Wasilla, City of	42,982	22,959
Whittier, City of	42,492	40,694
Wrangell, City of	121,096	124,052
Wrangell City Schools	23,057	2,859
Yukon Flats School District	53,980	38,047
Yukon-Koyukuk School District	80,598	64,852
Total Employees' Contributions	\$ 66,745,244	\$ 51,827,625

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT FUND
Comparative Statement of Operations

	FISCAL YEAR ENDED	
	June 30, 1988	June 30, 1987
Additions - Continued:		
<u>Employers' Contributions</u>		
Akutan, City of	\$ 8,704	\$ 10,664
Alaska, State of	58,289,249	64,563,489
Alaska Housing Finance Corporation	(85)	6,487
Alaska Municipal League	8,395	10,716
Alaska State Building Authority	447,592	456,047
Alaska, University of	2,219,107	3,490,741
Alaska Geophysical Inst., University of	114,363	78,372
Aleutian Region School District	(2,515)	2,515
Aleutians East Borough	2,524	-0-
Anchorage, Municipality of	8,646,187	11,676,701
Anchorage Parking Auth., Municipality of	31,365	8,900
Anchorage School District	4,053,217	5,227,693
Annette Island School District	50,654	41,287
Barrow, City of	37,672	16,564
Bartlett Memorial Hospital	445,230	343,503
Bering Straits School District	290,893	285,217
Bethel, City of	49,087	53,644
Bristol Bay Borough	40,220	92,738
Bristol Bay Borough School District	38,567	49,991
Bristol Bay Coastal Resource Service Area	3,714	-0-
Bristol Bay Housing Authority	39,829	9,475
Chatham School District	24,811	24,157
Chugach Region School District	(3,398)	334
Copper River Region Housing Authority	15,761	2,628
Copper River School District	(26)	15,712
Cordova, City of	228,102	182,570
Cordova Community Hospital	17,968	(17,942)
Cordova Public Schools	57,327	66,574
Craig, City of	25,029	5,331
Craig School District	10,519	7,781
Dillingham, City of	35,699	42,507
Dillingham School District	130,272	72,675
Emmonak, City of	11,440	38,777
Fairbanks, City of	1,296,315	1,876,267
Fairbanks Municipal Utility System	909,237	1,092,135
Fairbanks North Star Borough	134,476	316,477
Fairbanks North Star Borough School District	192,039	468,071
Fort Yukon, City of	-0-	106
Galena, City of	84,747	69,192
Galena City Schools	2,375	6,680
Haines Borough	11,743	-0-

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT FUND
Comparative Statement of Operations

FISCAL YEAR ENDED
June 30, 1988 June 30, 1987

Additions - Continued:
Employers' Contributions

Haines, City of	\$ 12,918	\$ (62)
Homer, City of	233,738	1,472,633
Hoonah, City of	50,335	54,019
Hoonah City Schools	41,378	28,087
Hooper Bay, City of	7,664	-0-
Hydaburg City School District	988	3,184
Iditarod Area School District	61,943	48,951
Juneau, City and Borough of	1,284,039	1,365,412
Juneau Borough School District	376,986	440,282
Kake, City of	-0-	2,788
Kashunamiut School District	34,192	30,968
Kenai, City of	173,153	229,030
Kenai Peninsula Borough	655,780	784,125
Kenai Peninsula Borough School District	795,103	849,415
Ketchikan, City of	715,363	1,410,612
Ketchikan Gateway Borough	75,330	227
Ketchikan Gateway Borough School District	260,386	200,168
King Cove, City of	2,269	773
King Cove City School District	6,648	19,531
Klawock, City of	20,002	-0-
Kodiak, City of	693,755	468,165
Kodiak Island Borough	197,428	78,480
Kodiak Island Borough School District	337,198	185,368
Kotzebue, City of	27,771	103,048
Kuspuk School District	35,018	34,196
Lake and Peninsula School District	48,201	1,835
Lower Kuskokwim School District	263,076	68,223
Lower Yukon School District	307,799	228,266
Matanuska-Susitna Borough	331,034	435,328
Matanuska-Susitna Borough School District	680,748	794,522
Nenana, City of	11,026	(250)
Nenana City Schools	18,801	31,991
Nome, City of	129,660	155,637
Nome City Schools	124,241	166,379
Nome Joint Utilities	7	397
North Pacific Fisheries Management Council	(1,147)	1,278
North Pole, City of	86,969	55,452
North Slope Borough	17,925	(5,008)
North Slope Borough School District	284,077	218,003
Northwest Arctic Borough	35,537	24,689
Northwest Arctic School District	(15,741)	18,044

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT FUND
Comparative Statement of Operations

	FISCAL YEAR ENDED	
	<u>June 30, 1988</u>	<u>June 30, 1987</u>
Additions - Continued:		
<u>Employers' Contributions</u>		
Palmer, City of	\$ 197,372	\$ 229,817
Pelican, City of	11,780	13,961
Petersburg, City of	268,548	417,659
Petersburg General Hospital	114,554	128,493
Petersburg Public Schools	27,614	-0-
Pribilof Region School District	(32)	(1,404)
Railbelt School District	15,463	34,502
Ruby, City of	8,623	12,097
Saint Mary's, City of	23,301	23,551
Saint Mary's School District	107,825	92,202
Saint Paul, City of	39,922	4,340
Sand Point, City of	12	7,997
Sand Point City School District	(546)	4,214
Saxman, City of	4,758	2,976
Scammon Bay	-0-	(8,906)
Selawick, City of	1,858	1,220
Seward, City of	193,281	233,644
Seward General Hospital	184,379	151,819
Sitka, City and Borough of	545,493	647,688
Sitka Community Hospital	18,720	259
Sitka Borough School District	55,745	189,214
Skagway, City of	39,208	42,783
Skagway City Schools	16,299	-0-
Soldotna, City of	254,984	227,630
Southeast Islands School District	28,173	8,621
Southeast Regional Resource Center	-0-	(215)
Southwest Region Schools	39,471	(43)
Special Education Service Agency	13,997	7,504
Tanana, City of	(5,068)	3,642
Tanana City School District	(16,267)	6,544
Terminated Employers	-0-	-0-
Thorne Bay, City of	18,711	14,008
Unalakleet, City of	4,176	4,559
Unalaska, City of	(28,306)	(1,426)
Unalaska City Schools	10,733	13,888
Valdez, City of	158,968	191,283
Valdez City Schools	83,654	83,711
Wainwright, City of	11,917	13,964
Wasilla, City of	36,811	16,993
Whittier, City of	37,992	42,541
Wrangell, City of	167,788	164,182
Wrangell City Schools	32,594	45,102

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT FUND
Comparative Statement of Operations

	FISCAL YEAR ENDED	
	<u>June 30, 1988</u>	<u>June 30, 1987</u>
Additions - Continued:		
<u>Employers' Contributions</u>		
Yukon Flats School District	\$ 945	\$ 316
Yukon-Koyukuk School District	(223)	-0-
Total Employers' Contributions	\$ 89,145,230	\$ 103,769,892
Investment Income	155,760,974	230,013,445
Market Value Adjustment	(112,754,906)	(27,799,173)
RIP Receivable	19,608,377	-0-
Total Additions	<u>\$ 218,504,919</u>	<u>\$ 357,811,789</u>
Equities, Reserves and Additions	<u>\$2,228,700,695</u>	<u>\$2,097,655,279</u>
Deductions:		
Administrative Expenses		
Personal Services	908,598	969,192
Travel and Moving	29,616	36,861
Contractual Services	405,192	446,940
Supplies and Materials	9,694	11,758
Machinery/Equipment	39,627	14,694
Grants/Interagency Services	<u>5,571,220</u>	<u>3,505,528</u>
Total Administrative Services	6,963,947	4,984,973
Employees' Contributions and Interest		
Refunded	11,409,300	10,524,697
Provision for Loan Losses	1,293,555	4,221,000
Medical Benefit Expenses	11,376,159	10,255,570
Retirement Benefits Paid	73,962,891	57,473,263
Total Deductions	<u>\$ 105,005,852</u>	<u>\$ 87,459,503</u>
Ending Equities and Reserves - Adjusted	<u>\$2,123,694,843</u>	<u>\$2,010,195,776</u>

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
Benefit Payments Breakdown
Fiscal Year 1988

Benefit Type	Total All Categories	Regular Retirees	Peace Officer Retirees	Fireman Retirees	*Elected Off. Retirees
Base Benefits	\$56,964,792	\$49,826,486	\$5,969,850	\$1,086,077	\$82,379
Cost of Living Allowance	4,895,059	4,258,821	519,663	103,381	13,194
Non-Occupational Deaths	1,500,902	1,407,250	50,280	33,805	9,567
Occupational Deaths	333,623	150,539	163,356	19,728	-0-
Disability Benefits	1,991,927	1,352,880	494,393	144,654	-0-
Post Retirement Pension Adjustments	7,445,463	6,656,256	616,752	158,555	13,900
Voluntary Annuities	5,419	5,419	-0-	-0-	-0-
Lump Sum Benefits	319,460	319,460	-0-	-0-	-0-
Medical Benefits	11,166,500	10,476,839	531,022	116,892	41,747
Totals by Membership Category		<u>\$74,453,950</u>	<u>\$8,345,316</u>	<u>\$1,663,092</u>	<u>\$160,787</u>
Total all Benefits	<u>\$84,623,145</u>				

Retirees (6/30/88)

6,687

6,274

318

70

25

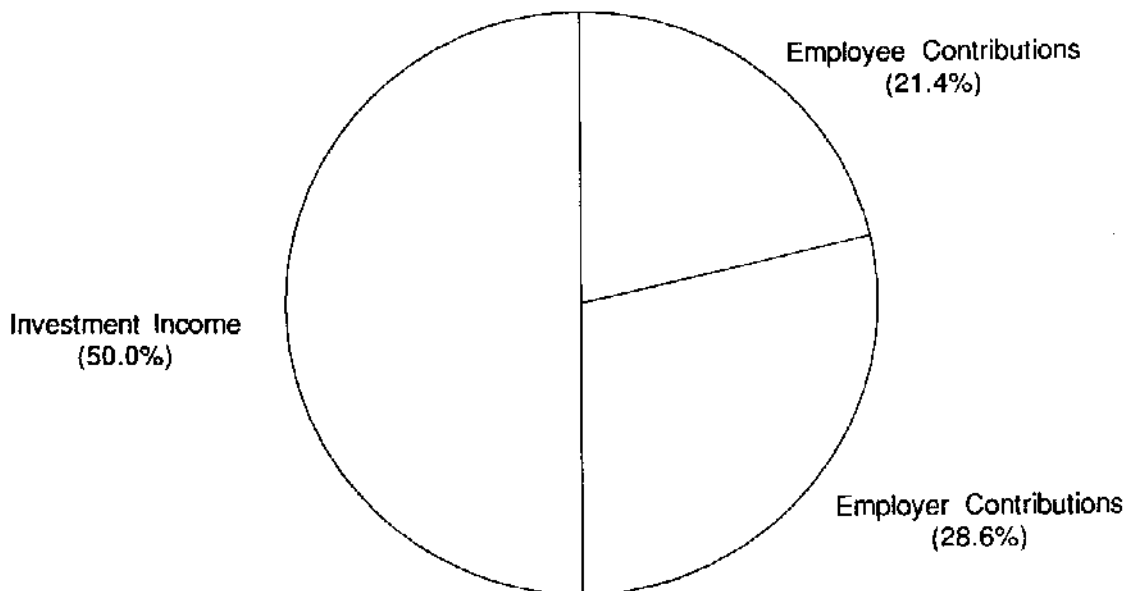
* Active and Retired Elected Public Officers as of October 13, 1976, were mandatorily transferred to the Elected Public Officers Retirement System (EPORS), which was established by legislation on January 1, 1976. Under current legislation, all other elected officials may participate in the PERS or the TRS, or do not participate at their option.

STATE OF ALASKA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Year Ended June 30, 1988

Income and Receipts \$311,651,448
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STATE OF ALASKA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Year Ended June 30, 1988

Disbursements \$103,712,297
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STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT FUND
Historical Data
Fiscal Years 1977 through 1988
(cents omitted)

Fiscal Year	Assets Fiscal Year End	Employers' Contributions During Fiscal Year	Employees' Contributions During Fiscal Year	Benefits Paid Including Medical Expenses & Death Benefits	Employees' Contributions and Interest Refunded During Fiscal Year	Net Investment Income During Fiscal Year
1977	190,954,572	34,881,182	13,438,538	7,607,162	3,816,748	12,602,465
1978	246,662,043	38,735,575	16,176,433	11,005,738	4,345,592	16,612,594
* 1979	316,675,507	47,613,575	17,631,003	14,947,478	4,978,848	25,177,371
1980	402,125,897	56,236,318	20,898,263	17,775,811	5,759,464	37,489,889
1981	493,075,440	71,832,706	24,321,437	22,803,960	7,006,149	50,366,085
1982	609,103,807	88,332,287	28,918,210	27,438,183	7,192,268	51,408,749
1983	837,559,610	99,726,866	32,594,208	32,942,505	7,682,104	85,609,413
1984	964,702,019	114,245,148	36,764,836	39,998,747	8,888,000	100,972,192
1985	1,295,535,618	123,465,277	39,577,155	48,836,818	9,553,211	112,261,296
1986	1,739,843,490	127,726,698	42,626,327	55,326,284	9,165,313	182,140,000
1987	2,010,195,776	103,718,277	51,879,240	67,728,833	10,524,697	197,993,272
1988	2,123,694,843	89,145,230	66,745,244	85,339,050	11,409,300	41,712,513

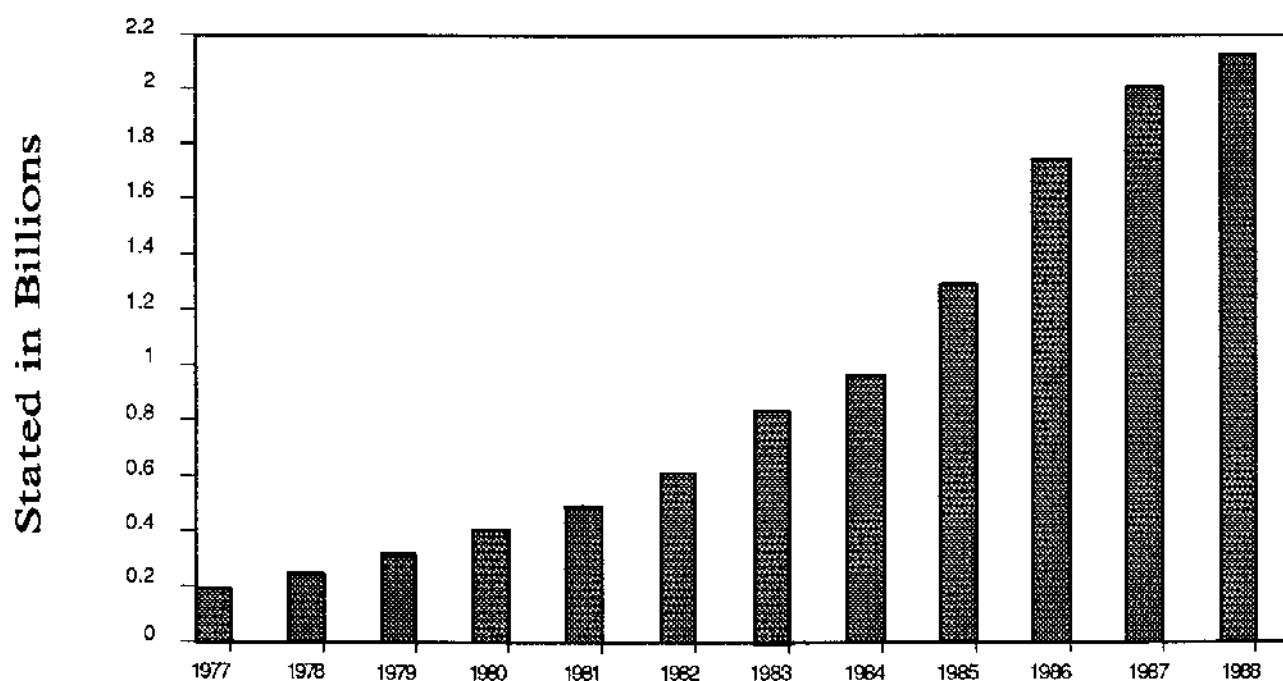
* Figures presented on an accrual basis effective FY 1979.

STATE OF ALASKA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Total Assets

Fiscal Years 1977 through 1988

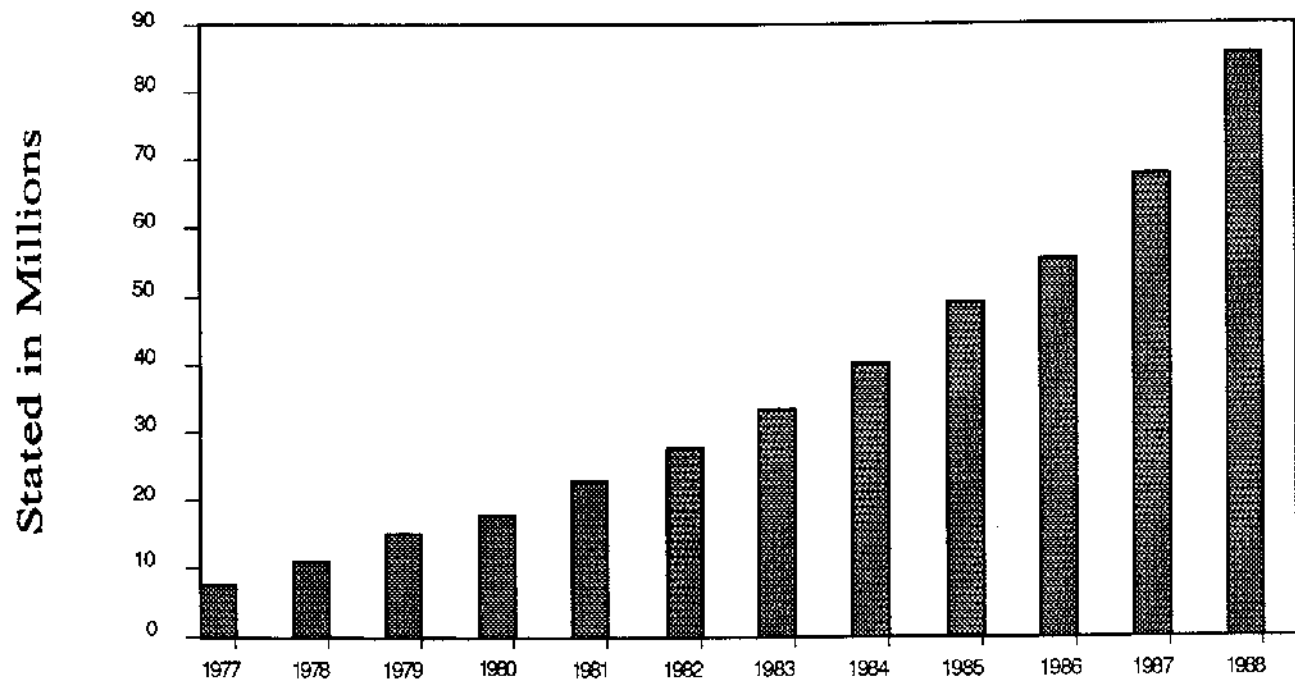


STATE OF ALASKA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Benefits Paid

Fiscal Years 1977 through 1988



STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT FUND
Employer Contribution Rates
Fiscal Year 1988

<u>Employer</u>	<u>Percentage</u>
Akutan	7.02
Alaska, State of	
Policemen, Firemen	13.05
All Other Employees	9.65
Alaska Housing Finance Corporation	0.00
Alaska Municipal League	9.14
Alaska State Building Authority	11.99
Alaska, University of	4.55
Alaska Geophysical Institute, University of	4.55
Aleutian Region School District	0.00
Aleutians East Borough	10.20
Anchorage, Municipality of	10.60
Anchorage Parking Authority, Municipality of	8.11
Anchorage School District	11.26
Annette Island School District	10.08
Barrow, City of	7.12
Bartlett Memorial Hospital	8.66
Bering Straits School District	8.01
Bethel, City of	10.28
Bristol Bay Borough	5.88
Bristol Bay Borough School District	11.23
Bristol Bay Coastal Resource Service Area	12.34
Bristol Bay Housing Authority	11.33
Chatham School District	6.30
Chugach Regional School District	0.00
Copper River Basin Regional Housing Authority	13.80
Copper River School District	0.00
Cordova, City of	16.03
Cordova Community Hospital	2.29
Cordova Public Schools	13.25
Craig, City of	4.91
Craig School District	16.38
Dillingham, City of	3.24
Dillingham City School District	16.20
Emmonak, City of	11.91
Fairbanks, City of	13.67
Fairbanks Municipal Utility System	13.67
Fairbanks North Star Borough	1.46
Fairbanks North Star Borough School District	1.46
Fort Yukon, City of	0.00
Galena, City of	10.71
Galena City Schools	3.25
Haines Borough	13.79
Haines, City of	1.98
Homer, City of	10.20
Hoonah, City of	9.39

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT FUND
Employer Contribution Rates
Fiscal Year 1988

Continued

<u>Employer</u>	<u>Percentage</u>
Hoonah City Schools	12.92
Hooper Bay, City of	10.20
Hydaburg City School District	0.00
Iditarod Area School District	5.45
Juneau Borough School District	10.54
Juneau, City and Borough of	8.66
Kashunamiut School District	9.51
Kenai, City of	5.40
Kenai Peninsula Borough	10.68
Kenai Peninsula Borough School District	13.67
Ketchikan, City of	15.96
Ketchikan Gateway Borough	6.35
Ketchikan Gateway Borough School District	14.39
King Cove, City of	0.00
King Cove City School District	1.89
Klawock, City of	18.66
Kodiak, City of	12.98
Kodiak Island Borough	9.20
Kodiak Island Borough School District	6.24
Kotzebue, City of	0.54
Kuspuk School District	4.35
Lake and Peninsula School District	3.62
Lower Kuskokwim School District	3.48
Lower Yukon School District	9.90
Matanuska-Susitna Borough	8.12
Matanuska-Susitna Borough School District	8.12
Nenana, City of	4.61
Nenana City Public Schools	9.67
Nome, City of	9.45
Nome City Schools	12.13
Nome Joint Utilities	0.00
North Pacific Fisheries Management Council	0.00
North Pole, City of	9.12
North Slope Borough	0.00
North Slope Borough School District	3.91
Northwest Arctic Borough	10.20
Northwest Arctic School District	0.00
Palmer, City of	12.90
Pelican, City of	12.47
Petersburg, City of	14.52
Petersburg General Hospital	14.52
Petersburg Public Schools	14.52
Pribilof Region School District	0.00
Railbelt School District	3.39
Ruby, City of	10.20

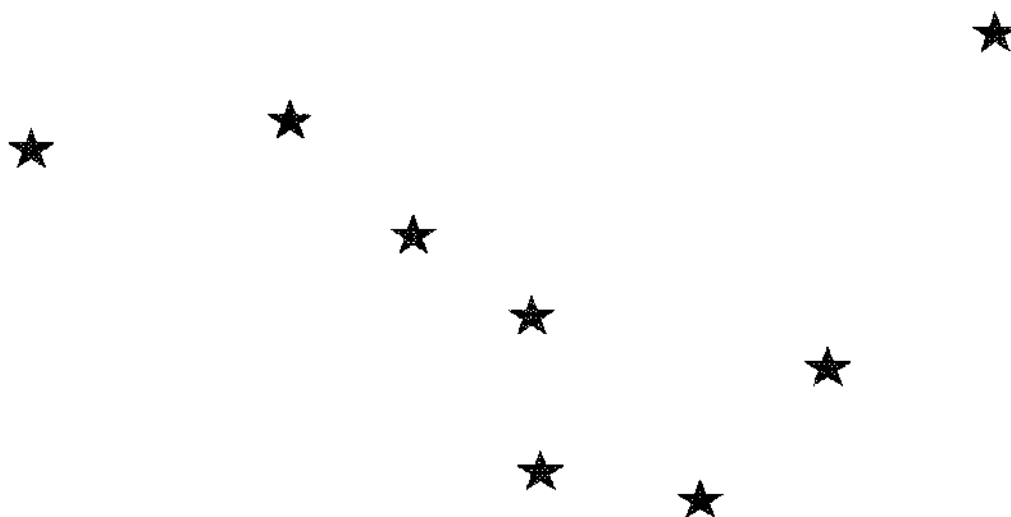
STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT FUND
Employer Contribution Rates
Fiscal Year 1988

Continued

<u>Employer</u>	<u>Percentage</u>
Saint Mary's, City of	16.42
Saint Mary's School District	22.56
Saint Paul, City of	4.75
Sand Point, City of	0.59
Sand Point City School District	0.00
Saxman, City of	11.54
Selawik, City Council	10.20
Seward, City of	9.74
Seward General Hospital	19.04
Sitka, City and Borough of	15.03
Sitka Community Hospital	1.05
Sitka Borough School District	5.44
Skagway, City of	10.25
Skagway City School District	18.01
Soldotna, City of	16.22
Southeast Islands School District	6.65
Southeast Regional Resource Center	0.00
Southwest Region Schools	0.00
Special Education Service Agency	10.20
Tanana, City of	0.00
Tanana City School District	8.82
Thorne Bay, City of	7.86
Unalakleet, City of	16.36
Unalaska, City of	0.00
Unalaska City Schools	6.66
Valdez, City of	4.45
Valdez City Schools	6.37
Wainwright, City of	11.30
Wasilla, City of	7.09
Whittier, City of	6.97
Wrangell, City of	9.86
Wrangell City Schools	10.53
Yukon Flats School District	0.00
Yukon-Koyukuk School District	0.00



TEACHERS' RETIREMENT SYSTEM



STATE OF ALASKA

TEACHERS' RETIREMENT SYSTEM

BOARD MEMBERS

NAME	TERM EXPIRES
Charles M. Arteaga, Chair	January 31, 1990
Dorothy Wells, Vice-Chair	June 30, 1990
Garris (Bob) Covington	January 31, 1991
Merritt C. Olson	January 31, 1989
Stephanie Winsor	June 30, 1990

KPMG Peat Marwick

Certified Public Accountants

Peat Marwick Main & Co.

Alaska Mutual Bank Building
601 West Fifth Avenue, Suite 700
Anchorage, AK 99501

Independent Auditors' Report

Division of Retirement and Benefits and
Members of the Alaska Teachers' Retirement Board
State of Alaska Teachers' Retirement System:

We have audited the accompanying statements of net assets available for benefits of the State of Alaska Teachers' Retirement System as of June 30, 1988 and 1987, and the related statements of changes in net assets available for benefits for the years then ended, and the summary schedule of investments as of June 30, 1988. These financial statements and schedule are the responsibility of the management of the State of Alaska, Department of Administration, Division of Retirement and Benefits. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and schedule referred to above present fairly the net assets available for benefits and changes therein as of and for the years ended June 30, 1988 and 1987, in conformity with generally accepted accounting principles.

The analysis of funding progress, and revenues by source and expenses by type supplementary information on Schedules 2 and 3, respectively, are not a required part of the basic financial statements of the State of Alaska Teachers' Retirement System but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Peat Marwick Main & Co.

September 12, 1988

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Statements of Net Assets Available for Benefits

June 30, 1988 and 1987

(In thousands)

	<u>1988</u>	<u>1987</u>
Assets:		
Investments, at fair value:		
Short-term investments	\$ 20,832	2,800
United States Government securities	523,379	445,972
Corporate bonds, notes and debentures	144,387	116,438
Common stocks	359,898	392,601
Foreign stocks	91,246	134,420
Real estate equity funds	85,587	75,598
Total investments	<u>1,225,329</u>	<u>1,167,829</u>
Loans and mortgages, at cost, net of allowance for loan losses of \$4,876 in 1988 and \$3,694 in 1987	<u>98,140</u>	<u>112,421</u>
Receivables:		
Contributions	4,802	7,935
Retirement incentive program (note 5)	9,759	-
Accrued interest and dividends	15,496	13,188
Total receivables	<u>30,057</u>	<u>21,123</u>
Cash in interest-bearing accounts	4,641	4,017
Total assets	<u>1,358,167</u>	<u>1,305,390</u>
Liability - accrued expenses	<u>1,592</u>	<u>1,926</u>
Net assets available for benefits	<u>\$ 1,356,575</u>	<u>1,303,464</u>

See accompanying notes to financial statements.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Statements of Changes in Net Assets Available for Benefits

Years ended June 30, 1988 and 1987

(In thousands)

	<u>1988</u>	<u>1987</u>
Additions:		
Investment income:		
Net depreciation in fair value of investments (note 7)	\$ (75,566)	(15,677)
Interest	72,753	69,076
Dividends	15,156	8,734
Net realized gains	<u>13,512</u>	<u>69,576</u>
Total investment income before provision for losses on loans and mortgages	25,855	131,709
Provision for losses on loans and mortgages	<u>1,182</u>	<u>3,694</u>
Net investment income	<u>24,673</u>	<u>128,015</u>
Contributions:		
State of Alaska (note 4)	-	26,856
Employers (note 4)	51,284	28,959
Employees (note 4)	31,384	32,058
Employers - retirement incentive program (note 5)	18,079	2,362
Employees - retirement incentive program (note 5)	<u>1,720</u>	<u>2,101</u>
Total contributions	<u>102,467</u>	<u>92,336</u>
Total additions	<u>127,140</u>	<u>220,351</u>
Deductions:		
Benefits paid:		
Retirement	60,939	46,183
Medical	<u>5,040</u>	<u>4,613</u>
Total benefits paid	65,979	50,796
Refunds to terminated employees	3,798	4,239
Administrative expenses	<u>4,252</u>	<u>3,502</u>
Total deductions	<u>74,029</u>	<u>58,537</u>
Net increase	53,111	161,814
Net assets available for benefits:		
Beginning of year	<u>1,303,464</u>	<u>1,141,650</u>
End of year	\$ <u>1,356,575</u>	<u>1,303,464</u>

See accompanying notes to financial statements.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

June 30, 1988 and 1987

(1) Description of State of Alaska Teachers' Retirement System (Plan)

The following brief description of the Plan is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

General

The Plan is the administrator of a cost-sharing, multiple-employer public employee retirement system established and administered by the State of Alaska (State) to provide pension benefits for teachers and other eligible participants. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a part of the State financial reporting entity and is included in the State's financial reports as a pension trust fund. At June 30, 1988, the number of participating local government employers was:

School districts	56
Other	<u>8</u>
Total employers	<u>64</u>

Any local government in the State may elect to have its permanent employees who are required to possess a valid State teaching certificate covered by the Plan. At June 30, 1987, Plan membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	3,153
Current employees:	
Vested	4,196
Nonvested	<u>3,601</u>
	<u>10,950</u>

Pension Benefits

General employees with eight or more years of credited service are entitled to annual pension benefits beginning at normal retirement age (fifty-five) equal to 2% of their highest three-year average monthly compensation for each year of service. The Plan permits early retirement at age fifty. Employees may elect to receive their pension benefits in the form of a joint and survivor annuity. Effective January 1, 1987, a married member who retires must receive his/her benefit in the form of a joint and survivor annuity unless the member's spouse consents to another form of benefit. Minimum benefits for employees eligible for retirement are \$25 per month for each year of credited service. In addition, major medical benefits are provided.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

Death and Disability Benefits

If an active employee, first hired under the Plan before July 1, 1982, is participating in the supplemental contribution provision, dies and is survived by a dependent child or children, the employee's spouse and children receive a survivor's allowance from the Plan. The amount of the survivor's allowance is determined by the participant's base salary and the number of dependent children. If an active employee was first hired under the Plan on or after July 1, 1982, is not participating in or eligible for coverage under the supplemental contribution provision and dies from an occupational cause, the spouse or beneficiary will receive a monthly pension from the Plan. The amount of the pension changes on the date the employee's normal retirement would have occurred if the employee had lived. The new benefit is based on the employee's average base salary at the time of his/her death and the credited service that would have accrued if the employee had lived and continued to work until normal retirement age.

If an employee with five or more paid up years of membership service is not eligible for normal retirement benefits and becomes permanently disabled, the employee is entitled to a monthly benefit. The annual disability benefit is equal to 50% of the base salary at time of disablement plus an additional 10% of his/her base salary for each dependent child up to a maximum of four children.

Effect of Plan Termination

Should the Plan terminate at some future time, its net assets generally will not be available on a pro rata basis to provide participants' benefits. Whether a particular participant's accumulated Plan benefits will be paid depends on the priority of those benefits at that time. Some benefits may be fully or partially provided for by the then existing assets while other benefits may not be provided for at all.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting.

Valuation of Investments

Investments, other than real estate equity fund and loans and mortgages, are carried at market value to reflect the asset values of the Plan as determined by the last quoted sales price at June 30, 1988 and 1987.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

Real estate equity funds are stated at estimated market value as determined by the independent management of the investment accounts. These investments do not have a readily available market and generally represent long-term investments.

Loans and mortgages are serviced by the institution from which the loan is purchased. The policy of the Plan is to hold these investments until maturity and, accordingly, the investments are stated at cost, less an allowance for estimated loan losses. Loans and mortgages include approximately \$9,191,000 and \$5,915,000 for 1988 and 1987, respectively, of other real estate owned. Other real estate owned represents properties on which the Plan has foreclosed and is holding with the intent to resell.

The change in fair value of investments for foreign stocks included in the net depreciation in fair value of investments in the statement of changes in net assets available for benefits is based on the net cost of foreign stocks (original cost plus reinvested investment income gains and losses).

The investment activity of all common stocks was consolidated October 1, 1987 with the common stocks of other State funds to form a common stock pool. The activity from October 1, 1987 and the June 30, 1988 balances of this common stock pool are accounted for on a unit-accounting basis.

The Commissioner of Revenue has the statutory authority to invest the moneys of the Plan. This authority is delegated to investment officers of the Treasury Division of the Department of Revenue. Alaska Statute provides for the investment in United States Treasury or agency securities; corporate debt securities; preferred and common stock, commercial paper; securities of foreign governments, agencies and corporations; foreign time deposits, gold bullion; futures contracts for the purpose of hedging; real estate investment trusts; deposits within Alaska savings and loans and mutual savings banks; deposits with state and national banks in Alaska, guaranteed loans; notes secured by mortgages; certificates of deposit and banker's acceptances.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

The Plan's deposits and investments are categorized below pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 3 and GASB Technical Bulletin No. 87-1 to give an indication of the level of safekeeping risk assumed by the Plan at June 30, 1988.

Deposits

Category 1 - Insured or collateralized with securities held by the State or its custodian in the State's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or custodian in the State's name.

Category 3 - Uncollateralized.

Investments

Category 1 - Insured or registered for which the securities are held by the State or its custodian in the State's name.

Category 2 - Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the State's name.

Category 3 - Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent but not in the State's name.

	Category (in thousands)			Market value and carrying value
	<u>1</u>	<u>2</u>	<u>3</u>	
Deposits - cash	\$ 4,641	-	-	4,641
Investments:				
Repurchase agreements	20,832	-	-	20,832
United State Government securities	523,379	-	-	523,379
Corporate bonds	144,387	-	-	144,387
Common stocks	359,898	-	-	359,898
Foreign stocks	-	91,246	-	91,246
Real estate equity funds	85,587	-	-	85,587
	<u>\$ 1,138,724</u>	<u>91,246</u>	<u>-</u>	<u>1,229,970</u>

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

Treasury investment policy requires that securities underlying the repurchase agreements must have a minimum market value of 102% of the cost of the repurchase agreement. There were no violations of this policy during the dates covered by this statement.

Contributions Receivable

Contributions from employees and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is considered necessary.

Investment Income Receivable

Investment income receivable represents amounts earned but not yet received as of June 30. These amounts are considered fully collectible and, accordingly, no allowance for uncollectible receivables is considered necessary. Accrued interest on loans and mortgages is not recorded until received.

Reclassifications

Certain amounts previously reported have been reclassified to conform with the current year's presentation. The reclassifications have no effect on the previously reported net increase in net assets available for benefits.

(3) Funding Status and Progress

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among Plans. The measure is independent of the actuarial funding method used to determine contributions to the Plan, discussed in note 4 below.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

The pension benefit obligation is determined by an actuary from William M. Mercer-Meidinger Incorporated and is that amount that results from applying actuarial assumptions to adjust the accumulated benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of June 30, 1987 are as follows:

- a. Actuarial cost method - projected unit credit, unfunded accrued benefit liability amortized over twenty-five years, funding surplus amortized over five years.
- b. Mortality basis - 1984 Unisex Pension Mortality Table set back one and one-half years.
- c. Retirement age - retirement rates based on actual experience.
- d. Interest rate - 9% per annum, compounded annually, net of investment expenses.
- e. Health cost inflation - 9% per annum.
- f. Salary scale - increase of 6.5% for the first five years of employment and 5.5% per year thereafter.
- g. Cost of living allowance (domicile in Alaska) - 54% of those receiving benefits will be eligible to receive the cost of living allowance.
- h. Contribution refunds - 100% of those terminating after age thirty-five with eight or more years of service will leave their contributions and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.
- i. Asset valuation - three-year average ratio between market and book values of the Plan's assets except that fixed income investments are carried at book value.

Turnover and disability assumptions are based upon actual historical occurrence rates of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

At June 30, 1987, the assets in excess of pension benefit obligation were \$92 million, as follows (in millions):

Net assets available for benefits, at market, as more fully described in note 2	\$ <u>1,303</u>
Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	578
Current employees:	
Accumulated employee contributions including allocated investment income	211
Employer-financed vested	353
Employer-financed nonvested	<u>69</u>
Total pension benefit obligation	<u>1,211</u>
Assets in excess of pension benefit obligation	\$ <u>92</u>

(4) Contributions Required and Contributions Made

Employees' Contributions

Employees contribute 7% of their base salary as required by statute. Qualified members may make an additional contribution of 1% of their salary. Contributions are collected by employers and remitted to the Plan. Present employees' accumulated contributions at June 30, 1988 were \$300,776,000. Employees' contributions earn interest at the rate of 4-1/2% per annum, compounded annually.

State Contribution

Prior to July 1, 1987, the State contributed one half of the employer actuarially determined contribution requirements. Effective July 1, 1987, the State discontinued its matching requirement and the full actuarially determined contribution requirements are borne by the employers.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

Employer Contribution

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The Plan also uses the level percentage of payroll method to amortize the unfunded liability over a twenty-five year period. Funding surpluses are amortized over five years.

	<u>1988</u>		<u>1987</u>	
	<u>Contributions</u>	<u>Percentage</u>	<u>Contributions</u>	<u>Percentage</u>
	<u>(in thousands)</u>	<u>of covered payroll</u>	<u>(in thousands)</u>	<u>of covered payroll</u>
State	\$ -	-%	\$ 26,856	7.7%
Employers	51,284	13%	28,959	8.3%
Employees	<u>31,384</u>	<u>8</u>	<u>32,058</u>	<u>9.2</u>
	<u>\$ 82,668</u>	<u>21%</u>	<u>\$ 87,873</u>	<u>25.2%</u>

Contributions made in accordance with actuarially determined contribution requirements determined through actuarial valuations consist of the following (in thousands):

	<u>1988</u>	<u>1987</u>
Normal cost	\$ 66,206	69,956
Amortization of unfunded actuarial accrued liability	<u>16,462</u>	<u>17,917</u>
	<u>\$ 82,668</u>	<u>87,873</u>

The actuarial valuation was performed
June 30, 1986 for 1988 and 1987.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed in note 3 above.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

(5) Retirement Incentive Program

Legislation passed in May 1986 established a retirement incentive program designed to encourage eligible employees to voluntarily retire in order to reduce personnel service costs. The program was available to eligible State employees until June 30, 1987, eligible University of Alaska employees from October 1, 1986 to September 30, 1987, and all other members from January 1, 1987 to December 31, 1987.

The retirement incentive program receivable represents the reimbursement due from agencies and employers participating in the program and is due in minimum equal annual installments so that the entire balance is paid within three years after the end of the fiscal year in which members retired. Interest on unpaid balances began accruing on March 1, 1988 at 7% per annum. The amount of reimbursement is the actuarial equivalent of the difference between the benefits the member receives after the addition of the retirement incentive under the program and the amount the member would have received without the incentive, less any amount the participant was indebted as part of retiring under the program. Participating members were indebted 21% of their annual compensation for the school year in which the member terminated employment to participate in the program. An outstanding indebtedness at the time a participant was appointed to retirement resulted in an actuarial adjustment to his/her benefit.

The effect of the retirement incentive program on the pension benefit obligation will be fully accounted for in the June 30, 1988 actuarial valuation. Only the effect of program participants retiring on or before June 30, 1987 is included in the June 30, 1987 actuarial valuation.

(6) Ten-year Historical Trend Information

Ten-year historical trend information designed to provide information about the Plan's progress made in accumulating sufficient assets to pay benefits when due is presented on Schedules 2 and 3.

(Continued)

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Financial Statements

(7) Investments

During 1988 and 1987, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows (in thousands):

	<u>1988</u>	<u>1987</u>
United States Government securities	\$ (7,881)	(21,893)
Corporate bonds, notes and debentures	(3,751)	(5,576)
Common stock	(41,372)	3,984
Foreign stock	(23,030)	7,211
Real estate equity funds	<u>468</u>	<u>597</u>
	\$ <u>(75,566)</u>	<u>(15,677)</u>

(8) Contingent Liabilities

The State of Alaska Public Employees' Retirement System (PERS) was a party to an action contesting application of the early retirement factors adopted by PERS in the calculation of the pension benefit obligation. The Alaska Supreme Court ruled in 1987 that the PERS application of the early retirement factors was incorrect. While the suit was not directed at the State of Alaska Teachers' Retirement System (TRS), its outcome indirectly affected the TRS application of actuarial retirement factors. The effect of the suit on the pension benefit obligation or the amount payable to retirees as a result of not using more favorable actuarial retirement factors has not been determined and, in the opinion of the TRS actuary and officials of the Division of Retirement and Benefits, will not significantly affect the Plan's financial status.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Summary Schedule of Investments

June 30, 1988

(In thousands)

	<u>Cost</u>	<u>Market</u>
Short-term investments	\$ 20,832	20,832
United States Government securities	496,188	523,379
Corporate bonds, notes and debentures	146,907	144,387
Common stocks	347,780	359,898
Foreign stocks	51,756	91,246
Real estate equity funds	79,261	85,587
Loans and mortgages, at cost, net of allowance for loan losses of \$4,876	<u>98,140</u>	<u>98,140</u>
	<u>\$ 1,240,864</u>	<u>1,323,469</u>

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Required Supplementary Information
Analysis of Funding Progress

(Unaudited)

(In thousands)

<u>Year ended</u> <u>June 30</u>	<u>Net assets</u> <u>available</u>	<u>Pension</u> <u>benefit</u> <u>obligation</u>	<u>Percentage</u> <u>funded</u>	<u>Unfunded</u> <u>pension</u> <u>benefits</u> <u>obligation</u>	<u>Annual</u> <u>covered</u> <u>payroll</u>	<u>Unfunded</u> <u>pension</u> <u>benefit</u> <u>obligation</u> <u>as a</u> <u>percentage</u> <u>of covered</u> <u>payroll</u>
1985	\$ 866,333	\$ 1,042,551	83.1%	\$ 176,218	\$ 358,110	49.2%
1986	1,141,650	1,115,773	102.3	(25,877)	392,136	(6.6)
1987	<u>1,303,464</u>	<u>1,210,909</u>	<u>107.6</u>	<u>(92,555)</u>	<u>348,606</u>	<u>(26.6)</u>

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

See accompanying notes to required supplementary information.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Required Supplementary Information
Revenues by Source and Expenses by Type

(Unaudited)

(In thousands)

Year ended June 30	Revenues by source					Employer contributions as a percentage of annual covered payroll
	Employee contri- butions	Employer contri- butions	Invest- ment income	Unrealized appreciation (depreciation) in market value	Total	
1978	\$ 15,510	19,793	16,685	-	51,988	10.8%
1979	15,142	26,559	22,832	518	65,051	13.8
1980	16,651	31,243	32,274	(6,494)	73,674	14.4
1981	18,853	37,654	39,804	(19,017)	77,294	16.2
1982	21,735	50,857	31,574	(6,701)	97,465	18.7
1983	24,546	54,718	62,846	36,218	178,328	18.6
1984	27,257	63,316	61,559	(48,194)	103,938	19.4
1985	29,176	68,826	74,171	78,418	250,591	19.2
1986	32,039	69,276	119,173	103,643	324,131	17.7
1987	<u>34,159</u>	<u>58,177</u>	<u>143,692</u>	<u>(15,677)</u>	<u>220,351</u>	<u>16.7</u>

	Expenses by type				Total
	Retirement benefits	Medical benefits	Refunds to terminated employees	Administrative expenses	
1978	\$ 11,026	-	2,319	618	13,963
1979	12,933	905	2,420	699	16,957
1980	15,548	914	3,088	853	20,403
1981	18,414	1,590	3,172	1,178	24,354
1982	21,198	1,683	2,974	1,333	27,188
1983	24,053	2,307	2,509	1,606	30,475
1984	27,792	3,257	3,094	1,605	35,748
1985	33,360	4,393	3,126	2,951	43,830
1986	38,476	4,424	3,311	2,603	48,814
1987	<u>46,183</u>	<u>4,613</u>	<u>4,239</u>	<u>3,502</u>	<u>58,537</u>

Contributions were made in accordance with actuarially determined contribution requirements.

See accompanying notes to required supplementary information

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM

Notes to Required Supplementary Information

Years ended June 30, 1987,
1986, 1985, 1984, 1983, 1982, 1981, 1980, 1979 and 1978

(Unaudited)

All significant accounting policies, benefit provisions and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

The Plan was on the cash basis of accounting for the year ended June 30, 1978. Effective July 1, 1978, the Plan adopted the accrual basis of accounting.

The Plan's actuarial funding method for the years ended June 30, 1978 through June 30, 1984 was attained age normal. Effective July 1, 1984, the Plan adopted the projected unit credit actuarial funding method.

Effective July 1, 1980, the Plan adopted new actuarial assumptions. The assumed rate of interest was increased from 6% to 8% per year. The salary scale assumption was changed from 6% per year until age thirty-nine and 5% per year thereafter to 8% for the first five years of employment and 7% thereafter. Health care cost inflation was set at 8%. Health care cost inflation was set at 8%. Turnover and disability assumptions were revised based upon actual experience in 1980 through 1981.

Effective July 1, 1986, the Plan adopted new actuarial assumptions. Actuarial funding surpluses are amortized over five years rather than twenty-five years. The assumed rate of interest was increased from 8% to 9% per year. The salary scale assumption was lowered to 6.5% per year for the first five years of employment and 5.5% per year thereafter, down from 8% and 7%, respectively. Health care cost inflation was increased to 9% rather than 8%. Turnover and disability assumptions were revised based on actual experience in 1981 through 1985.

The amortization period for the unfunded accrued benefit liability was changed from forty years to thirty years effective July 1, 1978 and from thirty years to twenty-five years effective July 1, 1981.

HIGHLIGHTS

This report has been prepared by William M. Mercer-Meidinger-Hansen, Incorporated to:

- (1) present the results of a valuation of the Alaska Teachers' Retirement System as of June 30, 1987;
- (2) review experience under the plan for the year ended June 30, 1987;
- (3) determine the contribution rates for the State and for each school district in the system;
- (4) provide reporting and disclosure information for financial statements, governmental agencies, and other interested parties.

The report is divided into two sections. Section 1 describes the basis of the valuation. It summarizes the plan provisions, provides information relating to the plan participants, and describes the funding methods and actuarial assumptions used in determining liabilities and costs.

Section 2 contains the results of the valuation. It includes the experience of the plan during the 1986-87 plan year, the current annual costs, and reporting and disclosure information.

The principle results are as follows:

Funding Status as of June 30:	<u>1986</u>	<u>1987</u>
(a) Valuation Assets*	\$1,040,173	\$1,225,009
(b) Present Value of Accrued Benefits*	1,115,773	1,210,909
(c) Accrued Benefit Funding Ratio, (a)/(b)	93.2%	101.2%
Contributions for Fiscal Year	<u>1989</u>	<u>1990</u>
(a) Normal Cost	9.36%	9.14%
(b) Past Service Rate	1.80%	(0.95)%
(c) Total Contribution Rate	11.16%	8.19%

* In thousands.

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions, in conjunction with employee data provided to us by the plan sponsor and financial information provided by the audited report from Peat, Marwick, Main and Company, to determine a sound value for the plan liabilities. We believe that this value, and the method suggested for funding it, are in full compliance with the Governmental Accounting Standards Board, the Internal Revenue Code, and all applicable regulations.

Respectfully submitted,

Robert F. Richardson

Robert F. Richardson, ASA
Principal

Gregory T. Smith

Gregory T. Smith, ASA, EA
Consultant

RFR/GTS/NLP/caj

March 29, 1988

ANALYSIS OF THE VALUATION

The Highlights Section shows an improvement in the accrued benefit funding ratio and a substantial reduction in the total contribution rate from the 1986 valuation. The reasons for the improvements, the Retirement Incentive Program (RIP), and the estimated effect of the stock market crash on October 19, 1987 are discussed below.

Funding Status

The valuation assets have increased by 17.8% since the 1986 valuation while the present value of accrued benefits has increased by only 8.5%. This produced an increase in the accrued benefit funding ratio, from 93.2% to 101.2%, and a decrease in the past service contribution rate, from 1.80% of salary to (.95%). The improvement in funding status is attributable to favorable plan experience since the last valuation which resulted in an actuarial gain to the plan. The sources of this gain are described later in this analysis.

Contribution Rate

The total contribution rate has declined from 11.16% of salary to 8.19%. The normal cost rate has decreased from 9.36% to 9.14% while the past service rate has dropped from 1.80% to (0.95%). The reduction in normal cost rate is due to changes in the active employee group while the decrease in the past service rate is due to the improvement in the funding status.

The assets now exceed the present value of accrued benefits by \$14.1 million. This means that accrued benefits are fully funded and the excess assets represent advanced funding of future benefit accruals. The excess assets are amortized over 5 years resulting in a past service rate credit of (0.95%), which is applied to reduce the normal cost rate.

Employee Data

Section 1.2 shows the statistical data for active, retired and other terminated employees. The number of active employees decreased from 8,824 at June 30, 1986 to 7,797 this year. Their average age and average service have each increased by more than half a year, while their average salary has remained virtually unchanged.

The number of retirees and beneficiaries has increased from 2,098 to 2,376. Their average age has decreased from 63.18 to 62.83 while their average monthly benefit has increased from \$1,542 to \$1,659. Of note is the decrease in the average age at retirement of new service retirees from 56.06 to 53.83 as shown in Section 1.2(c). This is a result of the RIP.

There has also been a large increase in the number of terminated vested employees from 481 to 777, as well as an increase in the number of non-vested terminations with account balances from 869 to 1,529.

Retirement Incentive Program

The Retirement Incentive Program (RIP) was established on May 15, 1986 under a House Bill 382. The program was designed to encourage employees who were eligible for the program to retire voluntarily with earlier retirement eligibility or increased benefits. The cost of the program is more than offset by the savings of salary and other benefits provided to an active employee.

To be eligible for the program, an employee must be vested, included in an organizational unit approved for participation, and meet the minimum age and service requirements. Eligible employees must have applied to participate in the program by June 30, 1987 except for University of Alaska TRS employees who had until September 30, 1987. Participating employees have until October 1, 1987 to retire except for University of Alaska employees who have until January 1, 1988.

The RIP gives each eligible employee participating in the program three years of incentive credit. The incentive credit is applied in the following order:

- (1) to reduce the age or service requirement for normal or early retirement
- (2) to reduce the actuarial adjustment for early retirement
- (3) to increase the amount of TRS service used to determine the employee's benefit amount.

The cost of the program is shared between TRS and the employee. The cost to the employee is 21% of the employee's annual salary in the year of termination. This may be paid in a lump sum or as indebtedness which will result in an actuarial reduction in the benefit.

The full impact of the RIP will not be reflected in the actuarial valuation until June 30, 1988 when all those employees participating in the program have retired. However, the effect of the program can already be seen by the reduction in the number of active employees and the increase in the number of retired employees shown in Section 1.2(a).

Actuarial Experience for the Plan Year Ending June 30, 1987

The plan experienced significant actuarial gains from investment performance, employee turnover, and the small increase in average salary.

For the third straight year, the investment return on plan assets has been greater than the long term rate assumed for the valuation. The rate of return was 14.20% based on valuation assets. This produced a large actuarial gain from investments which caused the contribution rate to drop slightly more than 2%. Net actuarial gains from other sources resulted in the improved funding status of the plan and the overall drop in contribution rate of 2.97%.

The bull market of the 1980's has played an important role in reaching full funding. On October 19, 1987, the market experienced an unprecedented drop. The full funding status of the plan presented in this valuation does not reflect that drop. Generally speaking, the stock market lost the gains it had made since the beginning of 1987. Not all of the plan assets were subject to this drop. On June 30, 1987, about 42% of the plan assets were in U.S. and foreign equities and 58% of the assets were composed of the book value of government and corporate bonds, cash and receivables, or other investments.

If the impact of the crash were fully reflected in the valuation assets (without the 3 year smoothing technique), the funding status would have declined from 101.2% to about 91% and the contribution rate would have increased from 8.19% to about 11.18%. The three year average smoothes losses and helps stabilize the contribution rate which otherwise would tend to fluctuate excessively. Of course, fluctuation between valuation dates does not effect contribution rates in any manner.

In addition to asset gains, there were gains from retirement and turnover. When an employee retires early, the plan will experience some gains as benefits due to expected future salary increases will not be paid.

Section 1.2(a) shows a large increase in both the number of vested terminations and the non-vested terminations with account balances. Turnover for the plan year ending June 30, 1987 also contributed to the net actuarial gain for the year. Partially offsetting these gains was the upward pressure on cost due to the increase in average age.

Summary

The plan year ending June 30, 1987 was a good year financially for the TRS. The plan became fully funded for accrued benefits and experienced a substantial drop in the total contribution rate. This was due to actuarial gains for the year, primarily in the area of investment return.

The RIP was a significant event during the plan year. Based on the decrease in active participants and the increase in retired participants, the program appears to be accomplishing its goal.

The effect of the stock market crash on October 19, 1987 is not reflected in this actuarial valuation at all, but will first be recognized in the June 30, 1988 valuation. Since equity appreciation or depreciation is averaged over a three year period for determining valuation assets, the impact of the crash on the plan will be recognized over the next 3 years. This will help smooth the contribution rate and give the market a chance to recover.

Section 1.3
ACTUARIAL BASIS

Valuation of Liabilities

- A. Actuarial Method - Projected Unit Credit. Liabilities and contributions shown in the report are computed using the Projected Unit Credit method of funding. The unfunded accrued benefit liability is amortized over 25 years. Actuarial funding surpluses are amortized over five years.

The objective under this method is to fund each participant's benefits under the plan as they accrue. Thus, each participant's total pension projected to retirement with salary scale is broken down into units, each associated with a year of past or future service. The principle underlying the method is that each unit is funded in the year for which it is credited. Typically, when the method is introduced there will be an initial liability for benefits credited for service prior to that date, and to the extent that this liability is not covered by Assets of the Plan there is an Unfunded Liability to be funded over a chosen period in accordance with an amortization schedule.

An Accrued Liability is calculated at the valuation date as the present value of benefits credited with respect to service to that date.

The Unfunded Liability at the valuation date is the excess of the Accrued Liability over the Assets of the Plan. The level annual payment to be made over a stipulated number of years to amortize the Unfunded Liability is the Past Service Cost.

The Normal Cost is the present value of those benefits which are expected to be credited with respect to service during the year beginning on the valuation date.

Under this method, differences between the actual experience and that assumed in the determination of costs and liabilities will emerge as adjustments in the Unfunded Liability, subject to amortization.

- B. Method for Accumulated Plan Benefit Values - The actuarial present value of accumulated plan benefits (the term used for Financial Accounting Standards Board purposes) and present value of vested accumulated benefits are a measure of plan benefits which have been earned to date. These are not only a valuation of retirement benefits, but also of deferred vested, death benefits, and other ancillary benefits. Earnings and service for benefit purposes which are expected to be earned after the valuation date are excluded from these values.

The actuarial assumptions used to determine these values are identical to those used for the funding purposes.

In estimating accumulated benefits, final average compensation is based on compensation data in the possession of the actuary.

C. Actuarial Assumptions -

- | | |
|-------------------------|--|
| 1. Interest | 9% per year, compounded annually, net of expenses. |
| 2. Salary Scale | 6.5% per year for the first five years of employment and 5.5% per year thereafter. |
| 3. Health Inflation | 9% per year. |
| 4. Mortality | 1984 Unisex Pension Mortality Table set back 1-1/2 years. |
| 5. Turnover | Based upon the 1981-85 actual total turnover experience. (See Table 1). |
| 6. Disability | Incidence rates in accordance with Table 2. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security. |
| 7. Retirement Age | Retirement rates based on actual experience in accordance with Table 3. |
| 8. Spouse's Age | Wives are assumed to be four years younger than husbands. |
| 9. Contribution Refunds | 100% of those terminating after age 35 with eight or more years of service will leave their contributions in the fund and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded. |
| 10. C.O.L.A. | 54% of those receiving retirement benefits will be eligible for C.O.L.A. |

- | | |
|----------------|---|
| 11. Sick Leave | 4.7 days of unused sick leave for each year of service will be available to be credited once the member is retired. |
| 12. Expenses | Expenses are covered in the interest assumption. |

Valuation of Assets

Based upon the three-year average ratio between market and book values of the System's assets, except that fixed income investments are carried at book value. Assets are accounted for on an accrued basis.

Valuation of Medical Benefits

Medical benefits for retirees are provided by the payment of premiums from the fund. A pre-65 cost and lower post-65 cost (due to Medicare) were assumed such that the total rate for all retirees equals the present premium rate. These medical premiums are then increased with the health inflation assumption. The actuarial cost method used for funding retirement benefits is also used to fund health benefits.

TABLE 1
ALASKA TRS
TOTAL TURNOVER ASSUMPTIONS

Select Rates of Turnover
During the First 10 Years
of Employment

<u>Year of Employment</u>	<u>Rate</u>
1	.17
2	.15
3	.12
4	.12
5	.11
6	.09
7	.07
8	.07
9	.07
10	.06

Ultimate Rates of Turnover
After the First 10 Years
of Employment

<u>Ages</u>	<u>Rate</u>
20-39	.03
40+	.02

TABLE 2
ALASKA TRS - DISABILITY RATES
ANNUAL RATES PER 1,000 EMPLOYEES

<u>Age</u>	<u>Rate</u>
20	.42
21	.43
22	.43
23	.44
24	.44
25	.45
26	.46
27	.47
28	.48
29	.49
30	.50
31	.52
32	.53
33	.54
34	.56
35	.58
36	.59
37	.62
38	.64
39	.67
40	.69
41	.72
42	.76
43	.82
44	.89
45	.97
46	1.06
47	1.15
48	1.24
49	1.34
50	1.44
51	1.56
52	1.72
53	1.91
54	2.13
55	2.40
56	2.75
57	3.20
58	3.66
59	4.32
60	5.06
61	5.85
62	6.78
63	7.83
64	8.94

TABLE 3
ALASKA TRS - RETIREMENT ASSUMPTION

<u>Age at Retirement</u>	<u>Retirement Assumption</u>
50	.063
51	.063
52	.063
53	.063
54	.063
55	.117
56	.117
57	.117
58	.117
59	.117
60	.260
61	.180
62	.210
63	.240
64	.270
65	.540
66	.820
67	1.000

For ages less than 50, teachers are assumed to retire two years after the earliest age they are eligible to retire.

Section 2.3
CALCULATION OF TOTAL CONTRIBUTION RATE

Normal Cost Rate

(1) Total Normal Cost*	\$ 58,098
(2) Total Salaries*	348,606
(3) Normal Cost Rate (1) / (2)	16.67%
(4) Average Member Contribution Rate	7.53%
(5) Consolidated Employer Normal Cost Rate, (3) - (4)	9.14%

Past Service Rate

(1) Present Value of Accrued Benefits*	\$1,210,909
(2) Valuation Assets*	1,225,009
(3) Total Unfunded Liability*, (1) - (2)	(14,100)
(4) Amortization Factor (5 year)	4.239720
(5) Past Service Payment, (3) / (4)	(3,326)
(6) Total Salaries*	348,606
(7) Past Service Rate, (5) / (6)	(0.95%)

Total Employer Contribution Rate 8.19%

* In thousands.

VAL2.6/pd/caj

STATE OF ALASKA
TEACHERS' RETIREMENT FUND
Comparative Statement of Operations

	FISCAL YEAR ENDED	
	<u>June 30, 1988</u>	<u>June 30, 1987</u>
Beginning Equities and Reserves	\$1,303,464,050	\$1,141,650,155
Additions:		
Employees' Contributions:		
Mandatory	29,346,564	29,382,660
Supplemental	802,605	903,652
Reinstatement	824,245	453,773
Arrearage	1,022,931	1,361,827
Retroactive	55,670	51,236
Indebtedness Interest	<u>1,052,156</u>	<u>2,005,636</u>
Total Employees' Contributions	33,104,171	34,158,784
Employers' Contributions	59,562,608	31,601,073
State Contributions-Matching	-0-	26,856,301
Investment Income	101,421,363	147,105,977
Market Value Adjustment	(75,566,162)	(15,676,739)
RIP Receivable	<u>9,799,747</u>	<u>-0-</u>
Total Additions	<u>128,321,727</u>	<u>224,045,396</u>
Total Equities, Reserves and Additions	<u>1,431,785,777</u>	<u>1,365,695,551</u>
Deductions:		
Administrative Expenses		
Personnel Services	861,396	852,488
Travel and Moving	22,150	17,949
Contractual Services	284,342	287,719
Supplies and Materials	10,965	6,332
Machinery/Equipment	37,542	12,592
Grants/Interagency	<u>3,034,954</u>	<u>2,325,034</u>
Total Administrative Expenses	4,251,349	3,502,114
Employees' Contributions and Interest Refunded	3,798,520	4,238,873
Provision for Loan Losses	1,182,019	3,694,000
Medical Benefit Expenses	5,039,800	4,613,300

STATE OF ALASKA
TEACHERS' RETIREMENT FUND
Comparative Statement of Operations

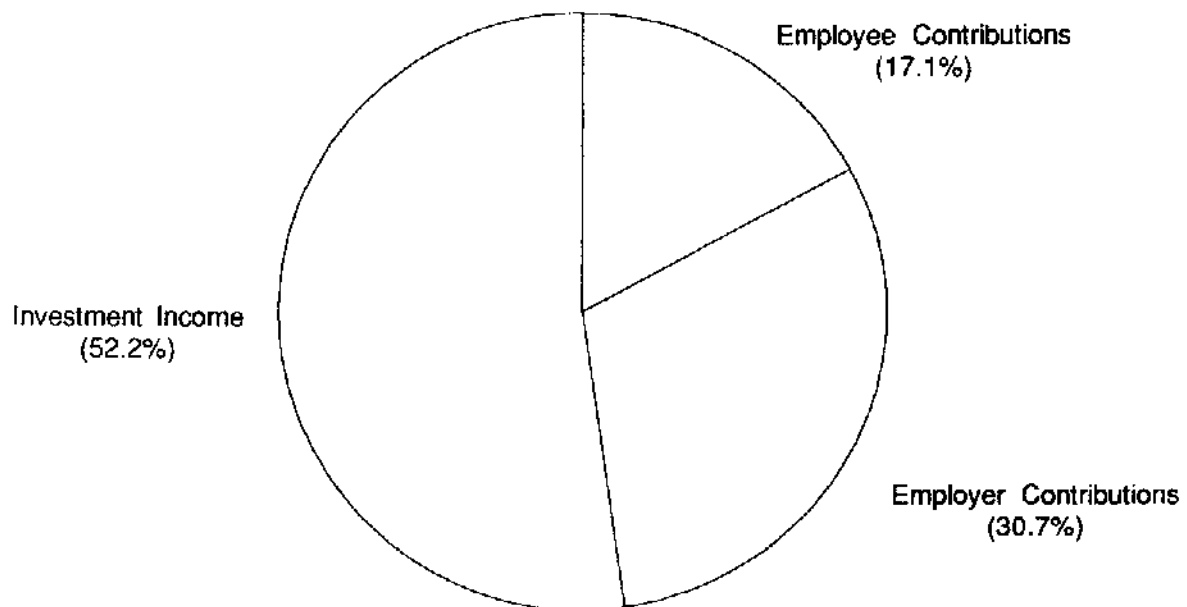
	FISCAL YEAR ENDED	
	June 30, 1988	June 30, 1987
Retirement Benefits Paid:		
Base Benefits	46,817,658	33,441,310
Cost of Living Allowance	3,477,416	2,391,373
Spouse's Annuity	516,652	457,763
Survivor Benefits	486,274	545,365
Disability Benefits	1,976,381	1,547,393
Post-Retirement Pension Adjustment	7,590,508	7,739,475
Lump-Sum Benefits	-0-	13,560
Non-occupational Death Benefits	73,929	46,975
	<u>60,938,818</u>	<u>46,183,214</u>
Total Retirement Benefits	60,938,818	46,183,214
Total Deductions	<u>75,210,506</u>	<u>62,231,501</u>
Ending Equities and Reserves-Adjusted	<u>\$1,356,575,271</u>	<u>\$1,303,464,050</u>

STATE OF ALASKA

TEACHERS' RETIREMENT SYSTEM

Year Ended June 30, 1988

Income and Receipts \$194,088,142
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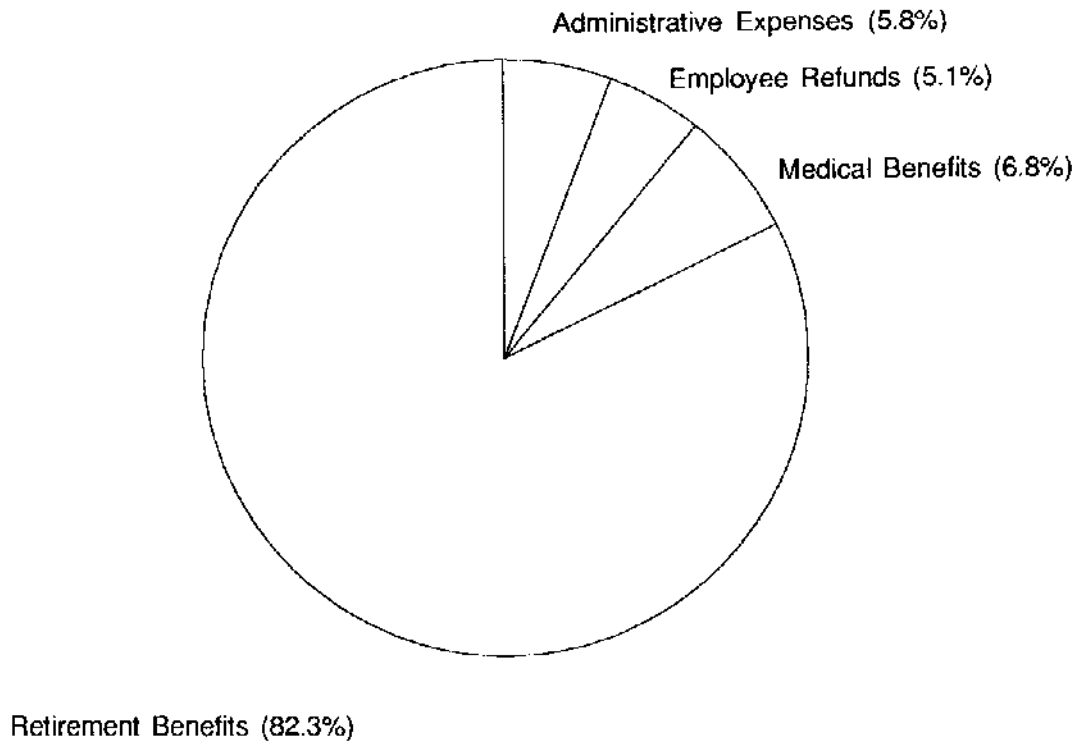


STATE OF ALASKA

TEACHERS' RETIREMENT SYSTEM

Year Ended June 30, 1988

Disbursements \$74,028,487



STATE OF ALASKA
TEACHERS' RETIREMENT FUND
Historical Data
Fiscal Years 1977 through 1988
(cents omitted)

Fiscal Year	Assets Fiscal Year End	State of Alaska and Employers' Contributions During Fiscal Year	Employees' Contributions During Fiscal Year	Benefits Paid Including Medical Expenses & Death Benefits	Employees' Contributions and Interest Refunded During Fiscal Year	Net Investment Income During Fiscal Year
1977	177,345,467	24,030,230	12,162,883	8,161,421	1,859,829	13,583,578
1978	215,370,551	19,792,849	15,510,483	11,025,589	2,319,376	16,051,252
* 1979	267,043,332	26,558,644	15,142,057	13,838,067	2,419,936	22,311,725
1980	320,314,293	31,243,171	16,650,594	16,462,399	3,087,910	31,783,301
1981	373,253,081	37,653,917	18,853,076	20,004,135	3,172,253	39,180,591
1982	443,528,571	50,856,750	21,735,042	22,881,444	2,974,426	30,900,759
1983	591,382,599	54,717,900	24,546,266	26,360,363	2,509,240	62,075,568
1984	659,572,326	63,315,499	27,256,918	31,048,570	3,094,220	60,586,110
1985	866,333,672	68,825,841	29,175,647	37,752,518	3,126,205	73,312,456
1986	1,141,650,155	69,275,717	32,039,021	42,900,488	3,311,113	119,172,931
1987	1,303,464,050	58,176,796	34,158,784	50,796,514	4,238,873	128,015,816
**1988	1,356,575,271	59,562,608	33,104,171	65,978,618	3,798,520	25,855,201

* Figures presented on an accrual basis effective FY 79.

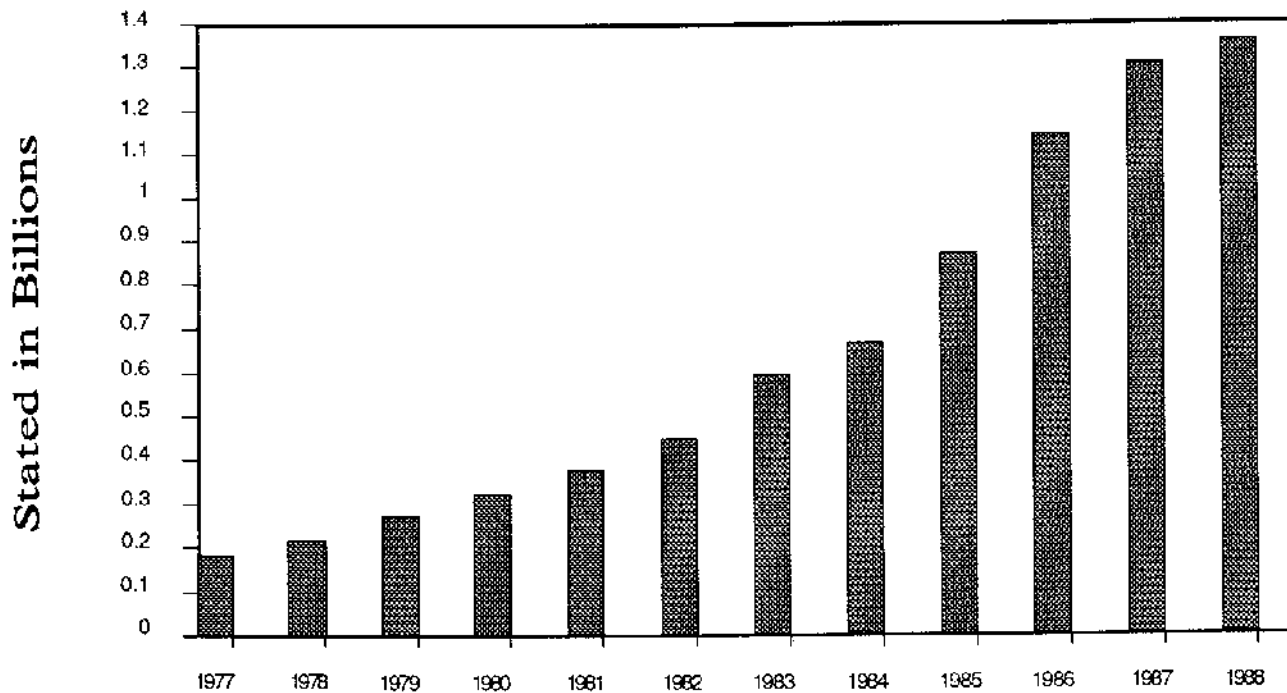
** Employers' contributions do not include State match effective FY 88.

STATE OF ALASKA

TEACHERS' RETIREMENT SYSTEM

Total Assets

Fiscal Years 1977 through 1988

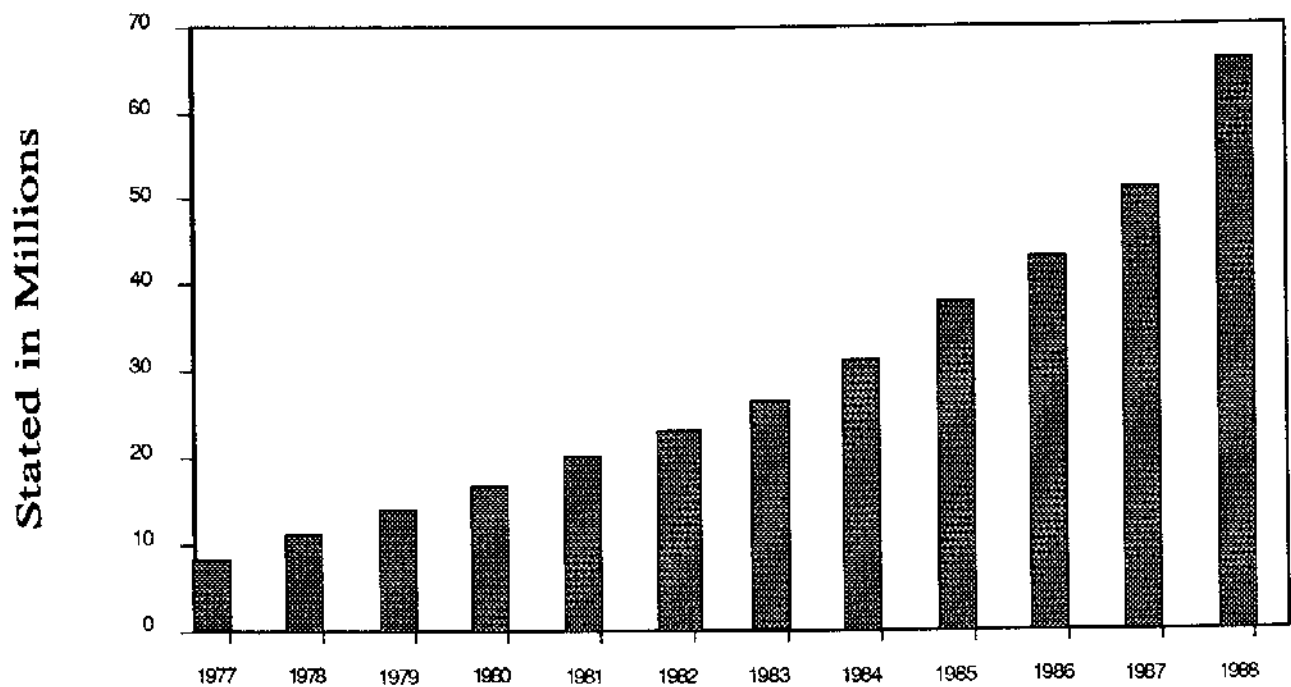


STATE OF ALASKA

TEACHERS' RETIREMENT SYSTEM

Benefits Paid

Fiscal Years 1977 through 1988



STATE OF ALASKA
TEACHERS' RETIREMENT FUND
Employer Contribution Rates
Fiscal Year 1988

<u>Employer</u>	<u>Percentage</u>
Adak Region School District	13.76%
Alaska Department of Education	
Alaska Gateway School District	
Alaska, University of	
Alaska Geophysical Institute, University of	
Aleutian Region School District	S
Anchorage School District	A
Annette Island School District	M
Association of Alaska School Boards	E
Bering Straits School District	
Bristol Bay Borough School District	F
Chatham School District	O
Chugach Region School District	R
Copper River School District	
Cordova School District	A
Craig School District	L
Delta-Greely School District	L
Dillingham School District	
Fairbanks North Star Borough School District	E M
Galena City School District	P
Haines City Schools	L
Hoonah City Schools	O
Hydaburg City School District	Y
Iditarod Area School District	E
Juneau Borough School District	R
Kake City Schools	S
Kashunamiut School District	
Kenai Peninsula Borough School District	
Ketchikan Gateway Borough School District	
King Cove City Schools	
Klawock City Schools	
Kodiak Island Borough School District	
Kuspuk School District	
Lake and Peninsula School District	
Lower Kuskokwim School District	
Lower Yukon School District	
Matanuska-Susitna Borough School District	
National Education Association	
Nenana City Schools	
Nome City Schools	
North Slope Borough School District	
Northwest Arctic School District	
Pelican School District	

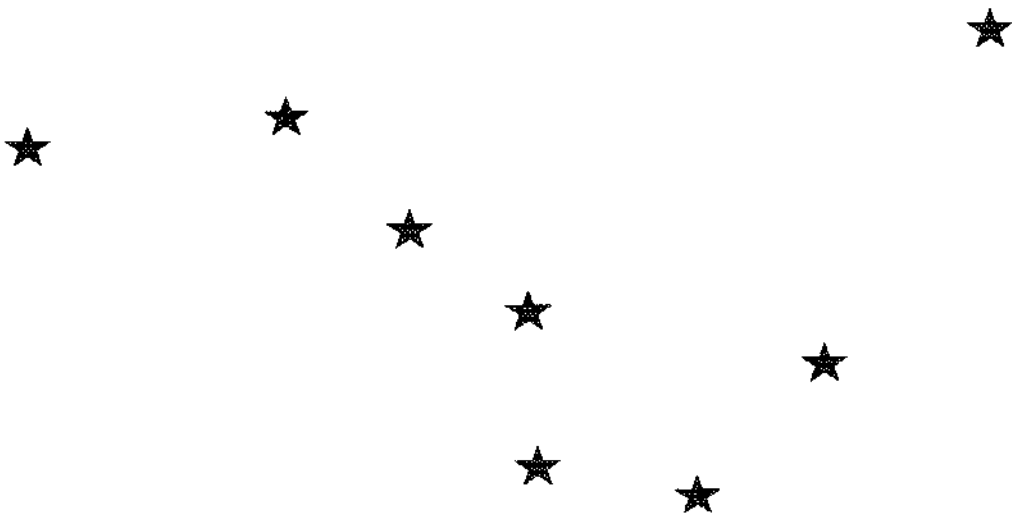
STATE OF ALASKA
TEACHERS' RETIREMENT FUND
Employer Contribution Rates
Fiscal Year 1988

Continued

<u>Employer</u>	<u>Percentage</u>
Petersburg City Schools	13.76%
Pribilof Region School District	
Railbelt School District	
Saint Mary's School District	
Sand Point City School District	S
Sitka Borough School District	A
Skagway City School District	M
Southeast Islands School District	E
Southeast Regional Resource Center	
Southwest Region School District	
Special Education Service Agency	F
State Legislature	O
Tanana School District	R
Unalaska School District	
Valdez City Schools	A
Wrangell School District	L
Yakutat School District	L
Yukon Flats School District	
Yukon-Koyukuk School District	E
Yupit School District	M
	P
	L
	O
	Y
	E
	R
	S



INVESTMENTS



STATE OF ALASKA

DEPARTMENT OF REVENUE

TREASURY DIVISION

STEVE COWPER, GOVERNOR

ELEVENTH FLOOR
STATE OFFICE BUILDING
P.O. BOX 58
JUNEAU, ALASKA 99811-0400

December 1, 1988

To the Participating Employees and Employers of
The Public Employees Retirement System

Dear Beneficiaries:

Under new statutes which became effective in June of 1988, the investible assets of the retirement system were officially established as a separate trust fund whose assets are required to be invested and held solely for the best financial interests of the system's beneficiaries. On behalf of the Trustee of the trust fund, Commissioner of Revenue Hugh Malone, the Treasury Division has prepared the accompanying financial statements for the Public Employees Retirement Trust Fund's fiscal year ending June 30, 1988. The financial statements have been redesigned in order to give you a better understanding of the fund's investment position and the investment returns realized during the last fiscal year.

The accompanying Statement of Assets shows the amounts that were invested in different types of investments and their respective market values and expected annual income flows. The fund's equity investments exhibit relatively low income yields because the income estimates do not include the highly variable capital gains which are usually realized annually on those investments. When capital gains are included, equity investments normally have higher total returns than fixed income investments. The fund's asset allocation of 38 percent to equities is a fairly conservative position for this type of fund. It reflects the probability that equity returns will be more modest and less certain over the immediate future than they have been in recent years. The 61 percent of the fund invested in high grade fixed income securities, which have higher and more certain income yields, acts to offset the more variable year to year returns on equities and helps to assure that the fund will be able to meet or exceed its assumed average actuarial return of 9 percent per annum. If the fund's returns exceed the assumed rate of return, as they have for most of the last 10 years, then either future contribution rates could be reduced or benefits could be increased. On June 30, 1988 the fund's market value of \$2.1 billion exceeded its book value by \$129 million and we expect its income from investments to be about \$146 million in the current fiscal year.

The second statement, Reconciliation of the Fund's Book Value for the Fiscal Year, shows the sources of the fund's growth in book value during the year. Almost 70 percent of the increase in the fund's size came from net realized investment returns. The remaining 30 percent of the fund's growth consisted of employee and employer contributions (net of benefit payments to retirees and refunds to non-vested participants). Net contribution amounts have been shrinking over recent years because high levels of investment returns have

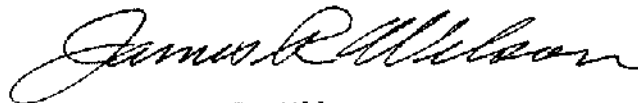
To the Participating Employees and Employers of
The Public Employees Retirement System
Page 2

reduced the amounts that need to be contributed in order to meet the retirement system's expected future liabilities and because the amount of benefit payments has grown as the number of retired employees has increased. Despite the decreased net contribution amounts and investment returns that were markedly lower than the previous three years, the fund's total book value increased by 11.9 percent during the fiscal year.

The third statement, Distribution of Investment Returns by Asset Categories, shows the fiscal year's realized investment returns on each of the different types of investments. Returns on the fixed income securities, which constitute 61 percent of the entire fund, are rather stable and do not vary much from year to year. Equity returns, on the other hand, are highly variable on a year-to-year basis. After three years of exceptionally high returns on domestic common stock securities, last year's lower returns were a somewhat overdue expectation. But international common stocks continued for the fourth straight year to realize very high returns, 34.6 percent for the fiscal year. The lower returns on domestic common stocks, which constitute 27 percent of the fund's assets, reduced the fund's overall net realized investment return for the fiscal year to 7.8 percent. That reduced return may not signify a necessary increase in the amounts which employers will have to contribute in future years, because actuarial valuations rely on three year averages of market to book values of investments to determine the asset base available for pension benefits.

During the last fiscal year the fund reduced its total equity investments by shifting 7 percent of the assets out of common stocks and into U.S. Treasury and corporate bonds. The shift was made in order to take advantage of the relatively high interest yields available on bonds and in order to reduce the fund's exposure to the poorer near term outlook at that time for common stock returns. We are five months into the new fiscal year and, based on the results so far achieved, it is reasonable to expect that the fund's realized return on its book value in the current year will be substantially higher than it was last year.

Respectfully,



James R. Wilson
Chief Investment Manager
Treasury Division
Department of Revenue

JRW/gb

Enclosure

STATE OF ALASKA
DEPARTMENT OF REVENUE
DIVISION OF TREASURY
PUBLIC EMPLOYEES RETIREMENT TRUST FUND
INVESTMENT SUMMARY

JUNE 30, 1988

PUBLIC EMPLOYEES RETIREMENT TRUST FUND
SUMMARY OF ASSETS
JUNE 30, 1988
(\$,000)

ASSETS	% of Total Book Value	Book Value	Market Value	Annual Income Estimate	Income Yields	
					at Book Value	at Market Value
EQUITIES (External Managers)						
REAL ESTATE EQUITIES	7%	\$131,681	\$140,802	\$7,071	5.37%	5.02%
DOMESTIC COMMONS	27%	537,368	556,880	18,969	3.53%	3.41%
INTERNATIONAL COMMONS	4%	77,847	138,421	1,541	1.98%	1.11%
		-----	-----	-----		
TOTAL EQUITIES	38%	746,896	836,103	27,582	3.69%	3.30%
		-----	-----	-----		
FIXED INCOME (Treasury Managed)						
MORTGAGES	6%	114,934	119,091	12,286	10.69%	10.32%
CORPORATE ISSUES	12%	228,916	225,931	23,876	10.43%	10.57%
U.S. TREASURY ISSUES	36%	703,067	741,826	70,518	10.03%	9.51%
MONEY MARKET ISSUES	8%	157,010	156,502	11,556	7.36%	7.38%
		-----	-----	-----		
TOTAL FIXED INCOME	61%	1,203,926	1,243,351	118,236	9.82%	9.51%
		-----	-----	-----		
TOTAL INVESTMENTS	99%	1,950,822	2,079,453	145,818	7.47%	7.01%
		-----	-----	-----		
CASH (INTEREST EARNING)	0%	91	91	6	6.55%	6.55%
		-----	-----	-----		
TOTAL INVESTIBLE ASSETS	99%	1,950,914	2,079,544	145,824	7.47%	7.01%
		-----	-----	=====		
NET ACCRUALS RECEIVABLE	1%	26,402	26,402			
CONTRIBUTIONS RECEIVABLE	0%	1,175	1,175			
		-----	-----			
TOTAL FUND ASSETS	100%	\$1,978,491	\$2,107,122			
		=====	=====			

See notes

PUBLIC EMPLOYEES RETIREMENT TRUST FUND
RECONCILIATION OF THE FUND'S BOOK VALUE
FOR THE FISCAL YEAR ENDING
JUNE 30, 1988
(\$,000)

		% of Book Value Change
INVESTMENT RETURNS:		
INCOME EARNED AND RECEIVED	\$109,324	52.1%
CAPITAL GAINS REALIZED	17,446	8.3%
	-----	-----
TOTAL RETURNS RECEIVED	\$126,770	60.4%
ACCRUED INCOME RECEIVABLE	\$26,402	12.6%
	-----	-----
TOTAL RETURNS RECEIVABLE	26,402	12.6%
	-----	-----
TOTAL INVESTMENT RETURNS	153,172	73.0%
LESS ADMINISTRATIVE EXPENSES	(6,964)	-3.3%
	-----	-----
NET INVESTMENT RETURNS	146,208	69.7%
NET CONTRIBUTIONS RECEIVED	62,496	29.8%
NET CONTRIBUTIONS RECEIVABLE	1,175	0.6%
	-----	-----
NET CHANGE IN BOOK VALUE	209,880	100.0%
		=====
FUND'S BOOK VALUE 6-30-87	1,768,612	

FUND'S BOOK VALUE 6-30-88	\$1,978,492	
	=====	

See notes

PUBLIC EMPLOYEES RETIREMENT TRUST FUND
DISTRIBUTION OF INVESTMENT RETURNS BY ASSET CATEGORIES AT BOOK VALUES
FOR THE FISCAL ENDING
JUNE 30, 1988
(\$,000)

ASSETS	Income Received	Capital Gain/(Loss) Realized	Returns Received	Income Accrued	Total Investment Returns	% Yield on Mid-Year Book Values

EQUITIES (Externally Managed)						
REAL ESTATE	\$7,371	\$	\$7,371	\$	\$7,371	6.50%
DOMESTIC COMMONS	19,165	(5,273)	13,893	1,275	15,168	2.46%
INTERNATIONAL COMMONS	2,941	24,047	26,988		26,988	34.67%
	-----	-----	-----	-----	-----	
TOTAL EQUITIES	29,477	18,775	48,252	1,275	49,527	6.13%
	-----	-----	-----	-----	-----	
FIXED INCOME (Internally Managed)						
MORTGAGES	11,158		11,158		11,158	9.09%
OTHER DEBT ISSUES	68,689	(1,328)	67,361	25,127	92,488	9.72%
	-----	-----	-----	-----	-----	
TOTAL FIXED INCOME	79,847	(1,328)	78,519	25,127	103,646	9.65%
	-----	-----	-----	-----	-----	
TOTAL RETURNS	109,324	17,446	126,770	26,402	153,172	8.14%
LESS EXPENSES PAID	(6,964)		(6,964)		(6,964)	
	-----	-----	-----	-----	-----	
NET RETURNS	\$102,360	\$17,446	\$119,806	\$26,402	\$146,208	7.77%
	=====	=====	=====	=====	=====	=====

See notes

PUBLIC EMPLOYEES RETIREMENT TRUST FUND
NOTES TO INVESTMENT SUMMARY

June 30, 1988

THE FUND

The Public Employees Retirement System is a defined benefit, joint contributory system established by the State of Alaska for the payment of retirement, disability, health and death benefits to or on behalf of qualified employees of the State or a political subdivision of the State. The Public Employees Retirement Trust Fund is a separate fiduciary trust fund established by state statutes. The Commissioner of Revenue is the Trustee of the fund and is responsible for the custody of the assets and for investing the fund for the best financial interests of the beneficiaries.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies for the Public Employees' Retirement Trust Fund conform to generally accepted accounting principles except for the effects of Treasury's accounting principles for foreign equity funds, as discussed below. The more significant accounting policies are as follows:

1. Fiscal year figures are for the Fund's fiscal year ending June 30th.
2. Net contributions reflect the amounts the trust fund received from the Division of Retirement and Benefits, and represent the contributions by employees and employers less the amounts of benefits paid or refunded.
3. Dividend income on domestic stocks is accrued on their ex-dividend dates. Interest income on domestic debt securities is accrued as earned. Interest income is shown net of amortization of premiums and accretion of discounts. Accrued interest purchased is charged against income at the time of acquisition. International dividends and interest are recognized for income purposes when their U.S. dollar amount has become irrevocable at the time they are remitted to the fund.
4. Book value is stated at cost except that the book values of marketable domestic debt issues are adjusted for amortization of premiums and accretion of discounts. Gains or losses on the sale of marketable domestic debt issues are determined on a specific lot identification basis, and gains or losses on the sale of equities in the Consolidated Domestic Equities Fund are determined on a specific lot basis.
5. Investment management costs are separately charged to the Public Employees' Retirement System and are not deducted from operating income at the time income is received.

NOTES TO INVESTMENT SUMMARY - Continued

6. The investments of the domestic common stock managers were merged into the Consolidated Domestic Equity Fund on October 1, 1987, and that fund is operated on a unit accounting basis for participating trust funds.

7. On June 30, 1987, the Treasury changed the fund's accounting for the cost basis of marketable securities in foreign equity funds. Under the new method, investment income and gains and losses on sales of securities are not considered realized until funds are converted to U.S. Dollars and withdrawn from the foreign equity funds, at which time gain or loss is realized proportional to the amount of market value appreciation or depreciation on the total of foreign equity investments. The proportion is the ratio of funds withdrawn compared to the total market value of the fund as of the date of withdrawal. It is the opinion of Treasury's external auditors, Ernst & Whinney, that the accounting principle stated in APB 52 recommends that investment income be recognized when accrued by the foreign equity manager and that gain or loss on the sale of marketable securities be recognized as realized upon completion of sale by the foreign equity manager. The above described differences would have no effect on the accounting for foreign equity funds on a market value basis.

8. Investments are stated on a trade date (ownership) accounting basis, including unsettled transactions as follows: sold securities at proceeds amounts for both book and market values; purchased securities at cost in book value and at closing market prices in market value. Gains and losses on sold securities are recognized as of the trade date.

MARKET VALUE

The market value of marketable securities is determined by the custodial agent on the last business day of each month. Real estate equities are valued by the managing firms. The market value of the mortgage investments is estimated by reference to the current secondary mortgage market conditions as reported by the MGIC Investment Corporation. Their estimate is of limited applicability because of the illiquid status of those investments.

INVESTMENTS

The Public Employees Retirement Trust Fund's deposits and investments are categorized below pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 3 and GASB Technical Bulletin No. 87-1 to give an indication of the level of safekeeping risk assumed by the fund at statement date. The Treasury Division does not concur in the interpretation which places international equity investments under category 2 rather than category 1.

Deposits:

1. Insured or collateralized with securities held by the State or by its custodian in the State's name.

NOTES TO INVESTMENT SUMMARY - Continued

2. Collateralized with securities held by the pledging financial institution's trust department or custodian in the State's name.

3. Uncollateralized

Investments:

1. Insured or registered for which the securities are held by the State or its custodian in the State's name.

2. Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the State's name.

3. Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent not in the State's name.

	CATEGORY @ BOOK VALUE (\$000)		
	1	2	3
DEPOSITS:			
CASH			
(INTEREST EARNING)	\$91	\$	\$
INVESTMENTS:			
U.S. TREASURY DEBT	703,067		
CORPORATE DEBT	228,916		
DOMESTIC EQUITIES	537,368		
FOREIGN EQUITIES		77,847	
MONEY MARKET ISSUES	157,010		
MORTGAGES	114,934		
REAL ESTATE EQUITIES	131,681		
FINANCIAL FUTURES			
	-----	-----	-----
TOTAL	\$1,873,066	\$77,847	\$0

REPURCHASE AGREEMENTS

Treasury Division investment policy and executed repurchase agreements with non-bank primary dealers require that U.S. Treasury securities collateralizing a repurchase agreement must have a minimum market value of 102 percent of the moneys lent. There were no violations of this policy during the dates covered by this statement.

EXTERNAL INVESTMENT MANAGEMENT

Domestic common stocks are assets of the fund currently under external management by contracted managers who have been directed to emphasize domestic corporate common stock investments. International common stocks are assets of the fund currently under external management by

NOTES TO INVESTMENT SUMMARY - Continued

contracted managers who have been directed to emphasize international corporate common stock investments. Real Estate Equities are assets of the fund consisting of units or shares in real estate equity funds which are under external contracted management by various companies.

YIELDS

Yields on United States Treasury Issues, and Corporate fixed income issues reflect weighted average yields-to-maturity based on either cost values or market values. Yields on domestic commons, international commons, and money market issues reflect current yields based on either cost values or market values. The yields on mortgages reflect a weighted average yield to a ten year average maturity based on cost values and market values. Yields on real estate equities reflect the annualized realized monthly income as related to book values and market values.

FUTURES CONTRACTS

The trust fund may use futures contracts to hedge its investment security portfolio against market value fluctuations. Gains and losses on hedging of common stock investments are realized as a separate item in the net income. Gains and losses on hedging of fixed income investments are realized as a decrease or increase in the amortized cost of the hedged security. In order to use futures contracts the Treasury Division has established margin accounts with futures dealers. Changes in the trust fund's margin account are summarized below:

	FY-88

Market Value 6-30-87	\$200.00
Deposits (Withdrawals)	0.00
Change in Market Value	0.00

Market Value 6-30-88	\$200.00

STATE OF ALASKA

DEPARTMENT OF REVENUE

TREASURY DIVISION

STEVE COWPER, GOVERNOR

ELEVENTH FLOOR
STATE OFFICE BUILDING
P.O. BOX 58
JUNEAU, ALASKA 99811-0400

December 1, 1988

To the Participating Employees and Employers of
The Teachers Retirement System

Dear Beneficiaries:

Under new statutes which became effective in June of 1988, the investible assets of the retirement system were officially established as a separate trust fund whose assets are required to be invested and held solely for the best financial interests of the system's beneficiaries. On behalf of the Trustee of the trust fund, Commissioner of Revenue Hugh Malone, the Treasury Division has prepared the accompanying financial statements for the Teachers Retirement Trust Fund's fiscal year ending June 30, 1988. The financial statements have been redesigned in order to give you a better understanding of the fund's investment position and the investment returns realized during the last fiscal year.

The accompanying Statement of Assets shows the amounts that were invested in different types of investments and their respective market values and expected annual income flows. The fund's equity investments exhibit relatively low income yields because the income estimates do not include the highly variable capital gains which are usually realized annually on those investments. When capital gains are included, equity investments normally have higher total returns than fixed income investments. The fund's asset allocation of 38 percent to equities is a fairly conservative position for this type of fund. It reflects the probability that equity returns will be more modest and less certain over the immediate future than they have been in recent years. The 61 percent of the fund invested in high grade fixed income securities, which have higher and more certain income yields, acts to offset the more variable year to year returns on equities and helps to assure that the fund will be able to meet or exceed its assumed average actuarial return of 9 percent per annum. If the fund's returns exceed the assumed rate of return, as they have for most of the last 10 years, then either future contribution rates could be reduced or benefits could be increased. On June 30, 1988 the fund's market value of \$1.3 billion exceeded its book value by \$84 million and we expect its income from investments to be about \$93 million in the current fiscal year.

The second statement, Reconciliation of the Fund's Book Value for the Fiscal Year, shows the sources of the fund's growth in book value during the year. Almost 77 percent of the increase in the fund's size came from net realized investment returns. The remaining 23 percent of the fund's growth consisted of employee and employer contributions (net of benefit payments to retirees and refunds to non-vested participants). Net contribution amounts have been shrinking over recent years because high levels of investment returns have

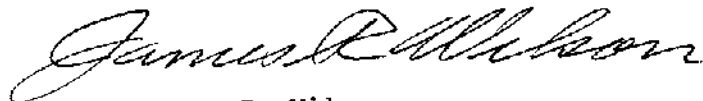
To the Participating Employees and Employers of
The Teachers Retirement System
Page 2

reduced the amounts that need to be contributed in order to meet the retirement system's expected future liabilities and because the amount of benefit payments has grown as the number of retired employees has increased. Despite the decreased net contribution amounts and investment returns that were markedly lower than the previous three years, the fund's total book value increased by 10.9 percent during the fiscal year.

The third statement, Distribution of Investment Returns by Asset Categories, shows the fiscal year's realized investment returns on each of the different types of investments. Returns on the fixed income securities, which constitute 61 percent of the entire fund, are rather stable and do not vary much from year to year. Equity returns, on the other hand, are highly variable on a year-to-year basis. After three years of exceptionally high returns on domestic common stock securities, last year's lower returns were a somewhat overdue expectation. But international common stocks continued for the fourth straight year to realize very high returns, 34.4 percent for the fiscal year. The lower returns on domestic common stocks, which constitute 28 percent of the fund's assets, reduced the fund's overall net realized investment return for the fiscal year to 8 percent. That reduced return may not signify a necessary increase in the amounts which employers will have to contribute in future years, because actuarial valuations rely on three year averages of market to book values of investments to determine the asset base available for pension benefits.

During the last fiscal year the fund reduced its total equity investments by shifting 7 percent of the assets out of common stocks and into U.S. Treasury and corporate bonds. The shift was made in order to take advantage of the relatively high interest yields available on bonds and in order to reduce the fund's exposure to the poorer near term outlook at that time for common stock returns. We are five months into the new fiscal year and, based on the results so far achieved, it is reasonable to expect that the fund's realized return on its book value in the current year will be substantially higher than it was last year.

Respectfully,



James R. Wilson
Chief Investment Manager
Treasury Division
Department of Revenue

JRW/gb

Enclosures

STATE OF ALASKA
DEPARTMENT OF REVENUE
DIVISION OF TREASURY
TEACHERS RETIREMENT TRUST FUND
INVESTMENT SUMMARY

JUNE 30, 1988

STATE OF ALASKA
TEACHERS RETIREMENT TRUST FUND
SUMMARY OF ASSETS
JUNE 30, 1988
(\$,000)

	% of Total Book Value	Book Value	Market Value	Annual Income Estimate	Income Yields ----- at Book Value at Market Value	

ASSETS						

EQUITIES (External Managers)						
REAL ESTATE EQUITIES	6%	\$79,261	\$85,587	\$4,518	5.70%	5.28%
DOMESTIC COMMONS	28%	347,780	359,898	12,277	3.53%	3.41%
INTERNATIONAL COMMONS	4%	51,756	91,246	1,009	1.95%	1.11%
		-----	-----	-----		
TOTAL EQUITIES	38%	478,797	536,731	17,804	3.72%	3.32%
		-----	-----	-----		
FIXED INCOME (Treasury Managed)						
MORTGAGES	8%	98,140	100,344	10,275	10.47%	10.24%
CORPORATE ISSUES	12%	146,907	144,387	15,264	10.39%	10.57%
U.S. TREASURY ISSUES	33%	413,804	441,206	42,084	10.17%	9.54%
MONEY MARKET ISSUES	8%	103,216	103,005	7,793	7.55%	7.57%
		-----	-----	-----		
TOTAL FIXED INCOME	60%	762,067	788,941	75,416	9.90%	9.56%
		-----	-----	-----		
TOTAL INVESTMENTS	98%	1,240,864	1,325,673	93,219	7.51%	7.03%
		-----	-----	-----		
CASH (INTEREST EARNING)	0%	128	128	8	6.55%	6.55%
		-----	-----	-----		
TOTAL INVESTIBLE ASSETS	98%	1,240,992	1,325,801	93,228	7.51%	7.03%
		-----	-----	=====		
NET ACCRUALS RECEIVABLE	1%	15,369	15,369			
CONTRIBUTIONS RECEIVABLE	0%	4,735	4,735			
		-----	-----			
TOTAL FUND ASSETS	100%	\$1,261,097	\$1,345,905			
		=====	=====			

See notes

TEACHERS RETIREMENT TRUST FUND
RECONCILIATION OF THE FUND'S BOOK VALUE
FOR THE FISCAL YEAR ENDING
JUNE 30, 1988
(\$,000)

		% of Book Value Change
INVESTMENT RETURNS:		
INCOME EARNED AND RECEIVED	\$70,955	57.1%
CAPITAL GAINS REALIZED	13,512	10.9%
	-----	-----
TOTAL RETURNS RECEIVED	\$84,467	67.9%
ACCRUED INCOME RECEIVABLE	\$15,369	12.4%
	-----	-----
TOTAL RETURNS RECEIVABLE	15,369	12.4%
	-----	-----
TOTAL INVESTMENT RETURNS	99,836	80.3%
LESS ADMINISTRATIVE EXPENSES	(4,252)	-3.4%
	-----	-----
NET INVESTMENT RETURNS	95,584	76.9%
NET CONTRIBUTIONS RECEIVED	24,033	19.3%
NET CONTRIBUTIONS RECEIVABLE	4,735	3.8%
	-----	-----
NET CHANGE IN BOOK VALUE	124,352	100.0%
		=====
FUND'S BOOK VALUE 6-30-87	1,136,745	

FUND'S BOOK VALUE 6-30-88	\$1,261,097	
	=====	

See notes

TEACHERS RETIREMENT TRUST FUND
DISTRIBUTION OF INVESTMENT RETURNS BY ASSET CATEGORIES AT BOOK VALUES
FOR THE FISCAL ENDING
JUNE 30, 1988
(\$,000)

ASSETS	Income Received	Capital Gain/(Loss) Realized	Returns Received	Income Accrued	Total Investment Returns	% Yield on Mid-Year Book Values

EQUITIES (Externally Managed)						
REAL ESTATE	\$4,445		\$4,445		\$4,445	6.11%
DOMESTIC COMMONS	12,365	(\$1,768)	10,597	\$824	11,421	2.86%
INTERNATIONAL COMMONS	1,967	15,856	17,823		17,823	34.44%
	-----	-----	-----	-----	-----	
TOTAL EQUITIES	18,777	14,087	32,864	824	33,688	6.43%
	-----	-----	-----	-----	-----	
FIXED INCOME (Internally Managed)						
MORTGAGES	8,955		8,955		8,955	8.63%
OTHER DEBT ISSUES	43,223	(576)	42,648	14,545	57,193	10.11%
	-----	-----	-----	-----	-----	
TOTAL FIXED INCOME	52,178	(576)	51,602	14,545	66,148	9.88%
	-----	-----	-----	-----	-----	
TOTAL RETURNS	70,955	13,512	84,467	15,369	99,836	8.37%
	-----	-----	-----	-----	-----	
LESS EXPENSES PAID	(4,252)		(4,252)		(4,252)	
	-----	-----	-----	-----	-----	
NET RETURNS	\$66,703	\$13,512	\$80,215	\$15,369	\$95,584	8.01%
	=====	=====	=====	=====	=====	=====

See notes

TEACHERS RETIREMENT TRUST FUND
NOTES TO INVESTMENT SUMMARY

June 30, 1988

THE FUND

The Teachers Retirement System is a defined benefit, joint contributory system established by the State of Alaska for the payment of retirement, disability, health and death benefits to or on behalf of qualified employees of the State or a political subdivision of the State. The Teachers Retirement Trust Fund is a separate fiduciary trust fund established by state statutes. The Commissioner of Revenue is the Trustee of the fund and is responsible for the custody of the assets and for investing the fund for the best financial interests of the beneficiaries.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies for the Teachers' Retirement Trust Fund conform to generally accepted accounting principles except for the effects of Treasury's accounting principles for foreign equity funds, as discussed below. The more significant accounting policies are as follows:

1. Fiscal year figures are for the Fund's fiscal year ending June 30th.
2. Net contributions reflect the amounts the trust fund received from the Division of Retirement and Benefits, and represent the contributions by employees and employers less the amounts of benefits paid or refunded.
3. Dividend income on domestic stocks is accrued on their ex-dividend dates. Interest income on domestic debt securities is accrued as earned. Interest income is shown net of amortization of premiums and accretion of discounts. Accrued interest purchased is charged against income at the time of acquisition. International dividends and interest are recognized for income purposes when their U.S. dollar amount has become irrevocable at the time they are remitted to the fund.
4. Book value is stated at cost except that the book values of marketable domestic debt issues are adjusted for amortization of premiums and accretion of discounts. Gains or losses on the sale of marketable domestic debt issues are determined on a specific lot identification basis, and gains or losses on the sale of equities in the Consolidated Domestic Equities Fund are determined on a specific lot basis.
5. Investment management costs are separately charged to the Teachers' Retirement System and are not deducted from operating income at the time income is received.

NOTES TO INVESTMENT SUMMARY - Continued

6. The investments of the domestic common stock managers were merged into the Consolidated Domestic Equity Fund on October 1, 1987, and that fund is operated on a unit accounting basis for participating trust funds.

7. On June 30, 1987, the Treasury changed the fund's accounting for the cost basis of marketable securities in foreign equity funds. Under the new method, investment income and gains and losses on sales of securities are not considered realized until funds are converted to U.S. Dollars and withdrawn from the foreign equity funds, at which time gain or loss is realized proportional to the amount of market value appreciation or depreciation on the total of foreign equity investments. The proportion is the ratio of funds withdrawn compared to the total market value of the fund as of the date of withdrawal. It is the opinion of Treasury's external auditors, Ernst & Whinney, that the accounting principle stated in APB 52 recommends that investment income be recognized when accrued by the foreign equity manager and that gain or loss on the sale of marketable securities be recognized as realized upon completion of sale by the foreign equity manager. The above described differences would have no effect on the accounting for foreign equity funds on a market value basis.

8. Investments are stated on a trade date (ownership) accounting basis, including unsettled transactions as follows: sold securities at proceeds amounts for both book and market values; purchased securities at cost in book value and at closing market prices in market value. Gains and losses on sold securities are recognized as of the trade date.

MARKET VALUE

The market value of marketable securities is determined by the custodial agent on the last business day of each month. Real estate equities are valued by the managing firms. The market value of the mortgage investments is estimated by reference to the current secondary mortgage market conditions as reported by the MGIC Investment Corporation. Their estimate is of limited applicability because of the illiquid status of those investments.

INVESTMENTS

The Teachers Retirement Trust Fund's deposits and investments are categorized below pursuant to the Governmental Accounting Standards Board (GASB) Statement No. 3 and GASB Technical Bulletin No. 87-1 to give an indication of the level of safekeeping risk assumed by the fund at statement date. The Treasury Division does not concur in the interpretation which places international equity investments under category 2 rather than category 1.

Deposits:

1. Insured or collateralized with securities held by the State or by its custodian in the State's name.

NOTES TO INVESTMENT SUMMARY - Continued

2. Collateralized with securities held by the pledging financial institution's trust department or custodian in the State's name.

3. Uncollateralized

Investments:

1. Insured or registered for which the securities are held by the State or its custodian in the State's name.

2. Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the State's name.

3. Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent not in the State's name.

	CATEGORY @ BOOK VALUE (\$000)		
	1	2	3
DEPOSITS:			
CASH			
(INTEREST EARNING)	\$128	\$	\$
INVESTMENTS:			
U.S. TREASURY DEBT	413,804		
CORPORATE DEBT	146,907		
DOMESTIC EQUITIES	347,780		
FOREIGN EQUITIES		51,756	
MONEY MARKET ISSUES	103,216		
MORTGAGES	98,140		
REAL ESTATE EQUITIES	79,261		
FINANCIAL FUTURES			
TOTAL	\$1,189,236	\$51,756	\$0

REPURCHASE AGREEMENTS

Treasury Division investment policy and executed repurchase agreements with non-bank primary dealers require that U.S. Treasury securities collateralizing a repurchase agreement must have a minimum market value of 102 percent of the moneys lent. There were no violations of this policy during the dates covered by this statement.

EXTERNAL INVESTMENT MANAGEMENT

Domestic common stocks are assets of the fund currently under external management by contracted managers who have been directed to emphasize domestic corporate common stock investments. International common

NOTES TO INVESTMENT SUMMARY - Continued

stocks are assets of the fund currently under external management by contracted managers who have been directed to emphasize international corporate common stock investments. Real Estate Equities are assets of the fund consisting of units or shares in real estate equity funds which are under external contracted management by various companies.

YIELDS

Yields on United States Treasury Issues, and Corporate fixed income issues reflect weighted average yields-to-maturity based on either cost values or market values. Yields on domestic commons, international commons, and money market issues reflect current yields based on either cost values or market values. The yields on mortgages reflect a weighted average yield to a ten year average maturity based on cost values and market values. Yields on real estate equities reflect the annualized realized monthly income as related to book values and market values.

FUTURES CONTRACTS

The trust fund may use futures contracts to hedge its investment security portfolio against market value fluctuations. Gains and losses on hedging of common stock investments are realized as a separate item in the net income. Gains and losses on hedging of fixed income investments are realized as a decrease or increase in the amortized cost of the hedged security. In order to use futures contracts the Treasury Division has established margin accounts with futures dealers. Changes in the trust fund's margin account are summarized below:

	FY-88

Market Value 6-30-87	\$200.00
Deposits (Withdrawals)	0.00
Change in Market Value	0.00

Market Value 6-30-88	\$200.00